May 8, 2018

Submitted via email to communications@fundserv.com and comments@osc.gov.on.ca

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The Secretary
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cc. Canadian ETF Association
Federation of Mutual Fund Dealers
Investment Funds Institute of Canada
Investment Industry Regulatory Organization of Canada
Canadian Foundation for Advancement of Investor Rights
Mutual Fund Dealers Association of Canada
Investment Industry Association of Canada
Autorité des marchés financiers
Chambre de la securité financière
CARP

RE: Fundserv Notice to Participants on New Rules for Service Providers

Dear Sirs and Madams:

Thank you for the opportunity to comment on the New Rules for Service Providers (the "**New Rules**") as set out on the the Fundserv Notice to Participants on New Rules for Service Providers dated April 23, 2018.

Vexo Technology Solutions Corp. is an Ontario-based privately-owned organization focused on providing technology solutions to the financial services industry. Visit www.vexo.ca for more information.

General Comments

The New Rules have some interesting and worrying points. We feel that the spirit of the New Rules is anti-competitive and ring-fences an oligopoly of service providers (one of which is a shareholder of Fundserv). Furthermore, we are of the opinion that the draft New Rules do not meet the standards of the rules as set out in the OSC recognition order that recognizes Fundserv as a clearing organization. The OSC order requires Fundserv to be fair and transparent with respect to Access, and to consider the public interest. It also requires Fundserv to ensure that its rules relating to clearing agency services do not impose a burden on competition that is not necessary or appropriate.

The New Rules open the door for discrimination against new service providers by adding a layer of subjective scrutiny with respect to product types that Approved Service Providers don't have (see comment #2 below). The New Rules also don't consider the public interest of driving down the cost of investing; something that could be done by enabling competition and innovation. Mutual fund manufacturers and distributors would benefit from lower service provider costs that could then be passed on to Canadian investors who have among the highest fees expenses in the world.

Specific Comments

1. The first paragraph in section 2.2 requires that "one or more Members" must sign all the Service Provider Application Documents. This would mean that a Member would have to blindly sponsor a Service Provider Applicant's application (the Service Provider Applicant would not be able to build a system until its application has been approved and it has gained access to the network and to the standards).

   Existing Members never had to do this, which puts Service Provider Applicants at a huge disadvantage. It is unreasonable to expect a Member to sponsor a Service Provider Applicant through the application process without having seen or tested the Applicant's technology. Furthermore, such sponsorship would expose to the Member's current service provider that their client is considering other options – a privacy issue.

2. Section 2.4 (c) and (d) are unnecessary given that all the product types are clearly defined in the existing Fundserv standards. Approved Service Providers can deal with all product types that are available in the Fundserv standards. Requiring Service Provider Applicants to describe product types that they intend on settling could only be used prejudicially by Fundserv through the vagueness of what constitutes "conventional investment funds". For example, Hedge Funds and Liquid Alts are two product types that are currently settled through Fundserv, and they are not conventional to most investors.

3. Section 2.4 (e) requires the Service Provider Applicant to have a client, and its counsel to provide an opinion on both parties' compliance with securities laws. Firstly, similar to comment #1 above, it's highly unlikely that a Service Provider Applicant would have a client if it can't show that it's 'Fundserv ready'. It must have a system that has been tested and approved by Fundserv.

   Second, complying with the applicable regulations is the responsibility of Members. As part of their due diligence in selecting service providers they are required to ensure that a system providers' technology meets specific criteria for its intended use, and they accordingly test the system to ensure this. Furthermore, Members set up parameters (levers on the Service Provider's platform) and have operational controls to ensure compliance with the specific regulations that apply to them. It would be unreasonable to expect the counsel of a technology firm to provide a legal opinion on compliance of an unbuilt and untested system, let alone on the compliance of distributors and manufacturers that can have an endless combination of usages (multiple business lines, different jurisdictions, product types, proprietary products and 3rd party products). This would be akin to requiring a legal opinion from General Motors counsel on road safety compliance of every driver across all highway acts and traffic laws.

Third, Approved System Providers are continuously enhancing their technology platforms. It would be unfair to require a legal opinion from Service Provider Applicants while approved service providers continue to enhance their platforms without this requirement.

4. Section 2.5 (a) and (b) have similar requirements as mentioned in the above comments, notably that the Service Provider Applicant must have a client and that the client would authorize access to the network and the standards. Prospect clients of the Service Provider Applicant would want to see demos and test the system long before they sign a contract. It would also be inappropriate to require current Members to publicly disclose that they are considering a new service provider. Confidentiality would be compromised by requiring Members to expose themselves.

5. Section 2.5 (c) requires the Service Provider Applicant to produce its business plan if it doesn't have a client. A business plan contains strategic and confidential information that no service provider has had to give to Fundserv in the past. It is particularly concerning given that one of the Approved Service Providers (IFDS) is also a Fundserv shareholder and the Board chair. This is an unreasonable demand and clearly a conflict of interest.

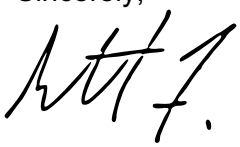
6. Similar to comment #2 above, Section 2.5 (e) mentions "conventional investment funds". Given that the investment fund product types are already clearly defined in the Fundserv standards, assessing a service provider's application on the subjectivity of what is a 'conventional investment fund' is not appropriate.

Summary

We are of the opinion that the New Rules are unfair, protectionist in nature and they disadvantage Service Provider Applicants. The spirit of the new rules is cartel-like and doesn't align well with Fundserv's mission statement: "*Our goal at Fundserv is to reduce time, cost and risk while improving the ease of doing business so that our clients can focus on what matters most to their business. We take pride in our model of delivering high-quality products that can be accessed by <u>all</u> within the industry*".

The New Rules could harm the future growth of the investment funds industry. What is needed is more competition and innovation which would benefit the Canadian investing public through innovative solutions that bring down the cost of investing. We at Vexo would like to partner with Fundserv, the regulators, and any industry participants that are interested in re-drafting the New Rules to make them just for the industry and to benefit all stakeholders.

Sincerely,



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