Box 348, Commerce Court West
199 Bay Street, 30th Floor
Toronto, Ontario, Canada M5L 1G2
www.cba.ca

Warren Law
Senior Vice-President, Corporate
Operations and General Counsel

Tel.: [416] 362-6093 Ext. 214
Fax: [416] 362-7708
wlaw@cba.ca

March 14, 2002

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
The Manitoba Securities Commission
Ontario Securities Commission
Office of the Administrator, New Brunswick
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland
Securities Registry, Government of the Northwest Territories
Registrar of Securities, Government of the Yukon Territory
Registrar of Securities, Government of Nunavut

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 800, Box 55
Toronto, Ontario
M5H 3S8

Dear Sirs and Madames:

<u>Re: Proposed Multilateral Instrument 31-102 (the "National Registration Database")</u>

The Canadian Bankers Association (CBA) appreciates this opportunity to provide you with our comments on the proposed Multilateral Instrument 31-102 (the "National Registration Database" or "NRD".)

We commend the Canadian Securities Administrators for taking initiatives aimed at making the regulatory system more efficient and competitive. Yet, in the case of NRD proposal, we have concluded that considerable work still needs to be done if progress is going to be made in improving the efficiency and competitiveness of the regulatory framework for mutual funds. Simply put, we have serious concerns about several aspects of the NRD proposal.

NRD a "fait accompli"?
We start with a comment about process and note that the NRD has been planned, designed and largely built without significant industry input. Our understanding is that the software has already been designed and coded and that as a result, there is little room left for us to make any meaningful comments about the proposed database. It seems to us that the industry has been invited to comment even though the NRD is largely a *fait accompli*, with the industry expected to pay for the NRD with a substantial fee increase.

Substantial fees
The fees that are proposed to be levied on registrants to cover the costs of developing and operating the NRD would run into the hundreds of thousands of dollars for our members in the first year of operation of the NRD and in subsequent years. We are not persuaded that the operational efficiencies that would ultimately be derived from the NRD warrant fee increases of this magnitude.

For example, a firm that employs 7,000 registered individuals would be obliged to pay in excess of $600,000 in NRD fees in the first year. This is in addition to the fees currently prescribed under securities legislation that the firm already is obliged to pay to securities regulators, to the Mutual Fund Dealers Association and other self-regulatory organisations. Similar amounts would be payable as NRD fees in subsequent years.

Our estimate of more than $600,000 in NRD fees is based on the following hypothetical calculation:

One-time Firm Enrolment Fee:	$7,000
Submission or Annual Fee	
(a) (7000 x $75)	$525,000
(b) add'l jurisdictions (2100 x $50)	$105,000
Total:	$632,000

We note that in subsequent years, the firm would be obliged to pay both an NRD submission fee and an annual fee in respect of new employees who are first-time enrolees in the NRD. Thus, if in year two, ten per cent of the employees were new to the NRD system, the firm would have to pay an additional $52,500 in NRD submission fees, bringing the total in NRD fees in that year to $677,500.

Thus, despite regulators' vows to reduce fees, a typical large Ontario-based securities firm would be obliged to pay $600,000 in new NRD fees, which would be in addition to the recently-introduced MFDA fees amounting to some $700,000 annually and the $800,000 per year in fees the firm must pay to the Ontario Securities Commission.

Look to registration revenues first
We are at a loss to understand why an initiative aimed at upgrading the technological processes of regulators should be an occasion for levying substantial new fees on industry members that already pay large fees to cover the regulators' costs of administration. In our view, regulators should look first to existing and future revenues and efficiency gains to defray these costs.

In our view, securities regulators should take a more long-term view of the costs involved in adopting new technologies that can be expected to result in administrative efficiencies and reduced administrative costs over time. Regulators should look first to the normal revenue stream from registration fees and expected future cost savings to defray the NRD start-up costs over a period of years and to cover the NRD's administrative costs on an ongoing basis.

Downloading of data input

We understand that securities regulators plan to download the work of inputting historical registration data into the new system, by requiring firms and registrants to reconstruct and input data concerning past employment and other data that is already in the regulators' paper files and in electronic files such as "Reggie". In our view, the regulators should be converting their registration files to new electronic formats in any event, and should pay for that out of their own administrative budgets. As well, we believe that the reliability and accuracy of reconstructed historical data would be questionable and would necessarily be less accurate and complete than the original data that the regulators already possess.

Downloading and NRD implementation timetable

The requirement to collect and reconstruct, verify and input into the NRD a large quantity of historical registration information would place a substantial administrative burden on our members at a time when they will be inevitably facing added workload pressures. As such, if securities regulators really are contemplating the downloading of data input, the timetable for implementation of the NRD should be re-examined. Unlike in previous years, when our members were able to spread renewals through the year, there is now a deadline of December 15, 2002 to complete all registration renewals. As well, the first cycle of Continuing Education will end on December 31, 2002 and our members will be busy reporting to the Investment Dealers Association on registrants that have or have not passed required courses.

We also note that even if the regulators were to input the data, registrants would still need to devote considerable time and expense to ensuring the accuracy of the information in the NRD.

Cost-benefit projections

We do not doubt that the NRD could offer benefits to the industry and reduce administrative costs. However, even if these benefits were realized, we doubt that they would justify the cost of developing and implementing the NRD, let alone passing the entire cost on to the industry.

A survey of registrants by OSC Chief Economist Randall Powley, released by the CSA shortly before the recent publication of the NRD proposals, was cited by the CSA as a basis for projecting that the NRD would result in substantial benefits for the industry. However, in our view, the survey release failed to give equal coverage to the significant benefits that securities regulators themselves could also expect to derive from the NRD.

We also note that the OSC's "cost - benefit" survey projects that it would cost $47 million to develop and operate the NRD over a five year period. We wonder whether that amount, which comes to nearly $10 million per year, is nearly equal to the annual cost of the present registration system. We are not persuaded that the NRD would offer benefits justifying such a substantial increase in the cost - to be paid by the industry - of administering the registration system.

Impact of fees on services to investors
While we commend the Canadian Securities Administrators for their efforts to streamline and integrate the existing regulatory system, we note that the NRD proposal illustrates the high cost of a fragmented system of securities regulation and, indirectly, underscores the merits of national regulation.

As well, it seems to us that regulators must make a greater effort than is reflected in this proposal, to consider the financial and economic impact of regulatory initiatives on the competitiveness and efficiency of the financial services sector. Thus, we note that the NRD, and in particular the proposed fees, could have a significant impact on the services and products that our members offer to investors. Fee increases that can only be described as huge would make it more costly to maintain a sales force and to offer advice to retail customers. This could result in changes in the availability of products such as "no load" investment funds, and in increases in minimum investment requirements.

In closing
We have appreciated the opportunity to express our concerns regarding the proposed Multilateral Instrument 31-102. We would be pleased to answer any questions that you may have about our comments.

Yours truly,

WL/DI/sh