April 30, 2004

Mr. John Stevenson
Secretary
Ontario Securities Commission
20 Queen Street West
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<u>Fair Dealing Model Concept Paper Comments</u>

On behalf of the Manitoba District Council of the Investment Dealers Association of Canada I am pleased to provide our comments on the Fair Dealing Model (FDM) Concept Paper.

As you may be aware, the Manitoba District Council of the Investment Dealers Association (MDC) is composed of volunteer industry members who act locally to communicate and respond on issues that affect Member firms both locally and nationally and contribute towards the coordination of efforts to enhance the image and profile of our industry.

While we recognize that currently this is an initiative of the Ontario Securities Commission (OSC) and therefore would not immediately have any impact on the capital markets and investment industry in Manitoba, nevertheless it would seem that if the OSC proceeds with the Fair Dealing Model it will be eager to have this adopted across the country by the other provincial regulators. In addition, as most of the largest firms operating in Manitoba are Ontario based clearly any actions taken by the head offices of these firms will have affects in the other regions that these firms operate. As such, the MDC feels that it should make its comments at this time.

Like the national IDA, the MDC supports the general Core Principles of the FDM. Those principles of clear allocation of responsibilities, transparency, and management of conflicts are vital to the success and viability of not only the Canadian capital markets but also the investing public and, in fact, our own firms.

The MDC also recognizes that, at this stage, the FDM is strictly a concept paper and as such is general in scope and limited in practical details. It is our understanding that implementation groups are currently meeting to further develop the ideas presented in the concept paper and elaborate on the specific details.

The initial question that arose when we were reviewing this concept paper was why this and why now? What has happened in this industry that would require such a fundamental shift in the way the business is regulated?

It is our opinion that the three core principles outlined in the concept paper are to a very large degree already upheld within the current body of regulation of both the Provincial Securities Commissions and the IDA. While we will not claim that the current body of regulation is perfect it would seem that if there are specific issues of concern that the OSC has that they could be addressed with modifications or minor revisions of what is already in place, rather than developing a completely new structure of doing business.

While the investment industry, like every other industry, has changed and developed as time has past, the core of our business has not changed. Our industry is one built on trust, the trust between an advisor and their client. It is our opinion that the FDM, in its current form, ignores this principle tenant of our industry and looks to strip down the business to its most rigid, regimented and confrontational form. Basically, we feel that this is an unnecessary action and, if pursued, one that should be tempered with the knowledge that the vast majority of our clients are in successful, long-term, open and honest relationships with Investment Advisors that are not in need of radical redesign.

As stated above, we recognize that this is still a concept paper and does not contain specific details or rules, however, we would like to raise these specific concerns:

Proposed Separation of Relationship Type

The MDC has concerns with the concept outlined in the FDM that would see the mandated separation of relationship types. The FDM defines the three types of accounts as Self-Managed, Advisory, and Managed-for-you, and the concept paper seems to suggest that an individual would be limited to maintaining only one type of these relationships with a given advisor. In fact, under the FDM a client may not even be able to have multiple relationships with the same advisor. If multiple "relationships" existed it would seem to suggest that multiple accounts would need to be established with, presumably, multiple Fair Dealing Documentation (along with any other required Account opening Documentation).

The FDM seems to suggest that clients would easily fit into one "relationship" or another when, in fact, quite the opposite is true as most relationships are a blend of two if not three of the outlined "relationship types". It is our opinion that this would be a radical departure from current practices and would not be a reflection of the majority of our client relationships.

Costs

One of our major concerns is that it seems that it will be extremely costly to fully implement the FDM. We feel that the additional administrative costs, both in terms of manpower and upgraded systems, should not be marginalized. We feel that it will be at great expense to member firms if they are going to be required to re-paper all of their existing accounts and potentially open multiple new accounts for those in broker-client relationships that will need to be separated.

In addition, the FDM proposes several changes to the way account statements are prepared and what information must be provided on them. Any changes to current standards will of course see additional costs to implement. Also the inclusion of new risk and performance tracking will result in the costly redesign of these systems as well.

While we note that some of these suggested changes to the client statements may be desirable please keep in mind that these changes cannot be done without incurring costs. Our business, like many others, will, unfortunately, ultimately see these flow through to the customers

Impact on Local Firms

The MDC has specific concerns with respect to impact that introducing the FDM might have on the long-term viability of Manitoba based firms.

Given our feeling on the additional cost-burden that will be imposed, it is our opinion that these costs will be proportionally much higher to smaller firms. Simple economics says that any new fixed costs spread over a smaller number of clients will see smaller firms put at a disadvantage to larger, national firms.

Also please consider that by introducing the FDM in Ontario it will possibly force Manitoba members to be required to abide by two completely different sets of regulations- the Ontario structure and the Manitoba structure. This again will add an extra layer of cost in terms of manpower and computer systems.

Impact on Local Issuers

In addition, it is our opinion that if the FDM were implemented in its current form another unintended consequences would be a tightening of the availability of capital to local issuers. We see this as occurring on two fronts.

Firstly, as the cost of servicing an account rises the less profitable each account becomes. As such, we would anticipate that there would be many accounts that will not be opened for clients in the "Advisory Relationship" or "Managed for You" that otherwise would have been opened. For the majority of smaller client accounts the only option available to them will be the "Self-Managed" account, or no account at all. This in turn will result in fewer "buyers" of new provincial issues including but not limited to our Labour Sponsored Funds, Manitoba Builder Bonds, and our other Provincial debt issues.

Secondly, many of the financings of local business are done by locally headquartered firms. As discussed in the section above, as costs rise the viability of smaller local dealers is further threatened. Without this base of local expertise and capital that these firms provide we fear that many Manitoba issuers will be prevented from seeking the capital and distribution that they require to prosper.

Impact on Small Clients

As mentioned briefly above, we also feel another unintended consequence of the FDM is that with increased cost/decreased profitability of small client accounts that many of these accounts will not be opened or will be shifted to "Self-Managed" accounts.

We strongly believe that sometimes it is the client with the smallest account that requires the most guidance from an Investment Advisor. However, we fear that the clients who may need advice the most will be unable to find it.

Risk Measurements

Also the MDC has some general concerns with the concept of risk measurements that are discussed throughout the paper. While the MDC supports the ideas of benchmarking and risk management, we feel great care must be taken to insure that any regulated risk measure is fair, understandable to both advisors and clients, and cost efficient to calculate and track.

In summary, we wish to stress that the MDC is of the opinion that this industry is not in dire need of a complete restructuring of the business. From our view we have already seen many improvements to the regulatory environment to both protect investors and encourage capital formation. Like the IDA nationally, the MDC believes that the best course of action for most if not all of what the FDM intends to achieve can be implemented, for IDA Members, through continual adjustments to both the IDA rules and through provincial Uniform Securities Legislation across the country.

We would welcome the opportunity to provide further explanation on any of our comments that may be unclear to Commission staff as may be required.

Yours truly,

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Investment Dealers Association of Canada

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