April 30, 2004

Mr. John Stevenson
Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario
M5H 3S8

Dear Mr. Stevenson:

RE: IPG's Comments on the OSC's Fair Dealing Model (FDM) – Concept Paper

We are writing to you on behalf of Independent Planning Group Inc. (IPG) pursuant to the release for comment of the proposals contained in the OSC's Fair Dealing Model Concept Paper.

Independent Planning Group Inc. is a mutual fund dealer registered in the provinces of Ontario, Quebec and British Columbia. Our advisors are predominantly financial planners that emphasize financial planning over paper-based transactions. Clients come to an IPG planner to receive advice and guidance on:

- General Financial Planning
- Retirement Planning
- Estate Planning
- Education Planning

We appreciate the opportunity to comment on this important initiative.

General Comments

In order for the FDM to be successful we believe that there are several issues that must be considered before the implementation of the Fair Dealing Model:

1) The OSC must ensure that the FDM will be adopted nationally. As is the case with many other organizations, IPG is currently licensed as a mutual

fund dealer in several provinces and many of our advisors are licensed in more than one jurisdiction. If the FDM does not apply to the sales activities of advisors in all provinces, there will be a significant burden on the organization and its advisors to remain focused on the different rules and procedures when operating in different provinces. This extra burden further translates into significant increases in the operating costs of any licensed dealer.

2) If the FDM is implemented it should not be limited to advisors who offer securities and mutual funds. The majority of licensed advisors are also dually licensed to sell life insurance and segregated fund products (sponsored by mutual fund companies) with no "Know Your Client" requirement. This is an unfair advantage to those individuals who are licensed for life insurance. For dually licensed advisors, there is incentive to offer the client a life insurance product to absolve him/herself of the regulatory requirements of the mutual fund/security industry even if this is not in the best interests of the client.

3) The FDM concept paper refers to a second concept paper that proposes changes to the way firms and individuals are currently licensed. We believe that this second concept paper will have a significant impact on the FDM. Please note that many of the comments in this letter are based on our knowledge of the current licensing system so we feel that our comments might be based on incomplete information. It is important that the industry be given another comment period once the second concept paper is released.

Response to Specific Proposals Contained in the FDM Concept Paper

These comments are put forth in chronological order to correspond to the pages in the FDM concept paper and in no way represent IPG's ranking of the importance of any one issue over another.

III – Core Principles of the Fair Dealing Model (pages 18 to 41)

1) Example on page 21 – "Bank employees"

   This example seems to blur the intent of the self-managed relationship because it seems to imply that the FDM would allow bank employees to have clients sign a self-managed agreement but allow these bank employees to provide clients with advice without any obligation to update the client profile.

Our understanding is that the self-managed relationship would only apply to organizations or individuals offering "execution only" services and that no advice would be given to the client (i.e.: discount brokers). We believe that it is reasonable to assume that clients dealing with a bank are expecting some type of advice and not self-service.

In order to establish the boundaries for each type of relationship, it will be important for the FDM to develop a definition about what constitutes "advice". For example, if a computer program were able to ask a client a series of questions and then recommend a portfolio or asset mix, would this be considered to be some form of advice?

2) Page 22 and 23 - Advisor's Obligations

This discussion would seem to imply that one advisor could have several types of relationships with the same client or different types of relationships with different clients. We believe that this could be confusing for clients, advisors and dealers. In addition this also creates extra costs and burdens for the dealer and advisor with respect to monitoring the various types of relationships to ensure that the boundaries of each type of relationship are strictly adhered to. To cite an example, if a self-managed client obtains a copy of the advisor's newsletter or marketing material discussing the merits of a specific product could this blur the relationship with this self-managed client?

3) Page 24 – Comment requested:

"Should we allow advisors who do not meet the current ICPM compensation or proficiency requirements to form Managed-For-You relationships under the Fair Dealing Model?"

We believe that this should not be restricted to the current ICPM proficiency. In order for the Managed-For-You relationship to work, this would have to be offered on a fee basis to reduce the risk of decisions being made solely on the basis of earning commissions. In addition, there should be a requirement for all advisors to have some sort of a designation (i.e.: CFP), to have a minimum number of years of experience in the industry and to remain in good standing with their association.

4) Page 27 – "Can a advisor in an Advisory relationship ever exercise discretionary authority on a client portfolio?"

We do not believe any exception to this rule is necessary as this would be very difficult to monitor. This type of relationship is currently not permitted under MFDA rules.

IV – Practical Details: How the Model Would Work (pages 42 to 78)

1) Page 46 – Content of Fair Dealing Document (FDD)

   The FDD tries to include everything in one document and it also makes the assumption that a product will be sold to the client. The FDD does not take into consideration that during the financial planning process it may be determined that selling a product to a client is not the best solution. In order to allow for these different situations the FDD should be separated into two agreements: i) an engagement agreement and ii) a financial or portfolio agreement.

   The engagement agreement would exclude:

   - investor information because this information will depend on the services being offered to the client
   - product details
   - portfolio details
   - a discussion on the risks of investing

   The financial plan or portfolio plan would include any additional information that is excluded in the engagement agreement.

2) The FDD is not compatible with the infrastructure of many mutual fund dealers because advisors can offer many services that are not required to be monitored by their dealer. To cite a practical example, life insurance and financial plans that do not include investment recommendations are not required to be monitored by a dealer. Advisors who offer these services will be required to:

   a. prepare several FDD's under the FDM and/or the dealer will now be required to monitor all of the activities of its advisors
   b. ask the client to agree with and understand the disclaimers in the FDD which specify which services are offered and monitored by the dealer – these disclaimers will create confusion about which financial organization the client is ultimately dealing with

3) Page 48 - Question 2: "The Fair Dealing Document is a contract binding on the firm and the client".

   The FDD would clearly bind the firm (Dealer) to the FDD therefore dealers would incur increased costs to request legal counsel to carefully review these contracts. Advisors would have limited ability to make changes to the FDD in order to reduce any risks of future litigation. In addition, dealers would have to develop very detailed procedures to monitor that the

advisor is adhering to the FDD. The end result is increased costs for the dealer, advisor and the client.

4) Page 49: “We would mandate a video explaining the basics of securities investing”.

   In our experience clients are not willing to take the time to listen to long presentations about investing. This is especially true if the client is opening a small account or if the client has previous investment experience. We believe that the majority of clients would not be interested in a video presentation and that the cost of producing these videos would outweigh the benefits. If clients are to be educated in this way, some leniency should be given to clients who are opening up a small account for one specific purpose (i.e.: an RESP for a grandchild) or to clients who have varying degrees of investment experience. In all cases, a client should have the option to “opt-out” of any video or similar presentation used to educate the client.

5) Page 51: “Firms would be required to generate more transaction-related documentation in-house.”

   In order for this to happen, the costs of technology will be passed from the mutual fund companies who already have systems in place to mutual fund dealers who may or may not have appropriate systems in place. This will significantly increase the cost of providing investment services to clients and thus would not be cost effective for clients with small portfolios.

   To illustrate this point, IPG has performed an analysis of our client database and this has produced the following results:

   - IPG Clients with assets < $ 25,000 is 50% of all our clients
   - IPG Clients with assets < $ 50,000 is 69% of all our clients

   These numbers clearly indicate that the majority of our clients are small investors and that these clients would be cost sensitive. We do not believe that these numbers would significantly differ from other mutual fund dealers.

6) Page 54 cites an example that suggests that a bias may exist if an advisor recommends that a client make an investment in place of paying down some of their debt. This bias will always exist unless the client is charged a flat fee or an hourly fee for advice and, it is our opinion that the client would not want to pay such a fee.

7) Page 59 – Comment Requested:

a) “Should our Transaction Summary proposal be made mandatory or should it remain a voluntary best practice?”

We do not believe that an advisor should be required to provide a transaction summary prior to the purchase of an investment because the details of the transactions will be included on the trade confirmations and quarterly statements. Providing clients with too many documents is costly and this may result in a client becoming overwhelmed with the amount of information they have received.

b) “Are there circumstances where investors should be able to opt out of receiving Transaction Summary?”

If it is determined that a transaction summary is required, clients should always be given the option of not receiving this information. It is our experience that many clients prefer receiving a minimal amount of documentation.

c) “Should some of the information in the Transaction Summary be optional?”

Since we do not believe that the transaction summary is required, we believe that all of the information should be optional.

8) Page 62 and 72 - Compensation transparency

We believe that all compensation should be transparent however we should be careful about inundating clients with too many disclosures. Currently the FDM would require disclosure of fees on Transaction Summaries, Confirmations and Annual Statements. If we compare this requirement to other businesses, no other industry is required to keep reminding clients of the fees being charged for services therefore we believe that this creates an unfair playing field for financial services participants.

9) Page 71 - Comment Requested:

a) “Should we prescribe the formula for calculating personalized returns? Should we approve a number of acceptable alternatives”?

To ensure a level playing field, we believe that a formula for calculating personalized returns should be prescribed. We would prefer that a formula is not made mandatory but that a set of guidelines is developed for use. If

it is determined that this be a mandatory formula, there should be only one option. The industry should choose one formula for an annualized return and have alternatives for calculating a more simple return.

As a mutual fund dealer operating in Client Name (versus Nominee), providing an accurate Rate of Return (ROR) is almost impossible because the quality and type of data feeds we receive from the fund companies (FundServ) are not adequate. We also understand that even our Nominee counterparts in the IDA world have had their share of frustrations in trying to provide an accurate ROR.

b) "Should performance information be provided to investors for each individual security or only for the overall portfolio?"

We believe that emphasis should be placed on the portfolio because it is important to encourage clients to look at the "big picture". In a properly diversified portfolio, returns will vary for each security in the portfolio.

10) Page 71 - Comment Requested:

"Should we require account statements to include external benchmarks?

No, this should be left as "Best Practices."

"Should we consider requiring statements to provide both gross and net returns?"

We have several concerns with providing gross and net returns:

i. The information that is required to be able to provide gross returns is not currently easily accessible or available. It would be important to investigate the costs to develop the systems to track gross returns before we are required to provide this information to clients.
ii. The majority of mutual fund dealers do not have the technology to be able to provide clients with the required reports and thus would have to invest a significant amount of money in technology in order to be able to provide the required reports.
iii. We can think of many situations where it would be difficult to show an allocation of fees linked to specific assets. For example, how could you report gross and net return if fees are being charged as a percentage of total assets or as part of an hourly rate? How would the fees being charged to prepare a financial plan be allocated?

iv. We question how gross and net returns would be impacted by a high turnover in a portfolio. For example, gross and net returns would be very close for a portfolio that has changed in the last month of the year.

v. We are concerned because no other industry is required to provide similar information to their clients (i.e.: car dealerships do not have to show their clients the cost of the car before the manufacturer and the car dealership have claimed their profit). As per our previous comments on this issue, does this create an unfair playing field for financial market participants?

11) Page 72 – "Annual account statements would be required to disclose the aggregate compensation paid to the financial services provider and other costs incurred on the account over the past year."

We believe that providing additional information regarding costs and fees would be useful for clients but we do not agree with the in-depth level of information proposed in the FDM. We feel that it would be sufficient and cost effective to disclose the annual management fees (including all wrap fees) on each investment plus the details of the DSC schedule. Providing this information annually to clients would clearly show the cost of owning the investment.

Further, we recommend that the fund company provide this information to clients. In any case, a complete cost analysis must be done before any decision about the content of annual account statements is made.

12) Page 75 and 76 – Risk

We believe that it would be useful to provide information about risk to clients however if we are required to provide this information it is critical that the industry establish clear guidelines that all market participants must follow.

To deal with the issue of risk our organization has assigned a numerical risk rating to each mutual fund on our back-office system. Our advisors and compliance staff use this as a guideline to help with the establishment of suitable portfolios for clients. This rating system has allowed us to use technology to help compliance staff monitor client accounts and provide early warning of portfolios that may need to be rebalanced.

Although we rank each mutual fund, our main concern is the client's overall risk level on a portfolio basis. We also realize that our risk rankings may only be relied upon as a guideline and that there is room for differences in opinions about these risk rankings amongst our sales force.

All this to say is that any system that ranks risk should have some flexibility and should focus on the risk of the entire portfolio on a weighted average basis and not on the risk of an individual holding or plan.

V. Transition to the Fair Dealing Model (page 79 to 87)

1) Page 81 – "Harmonization Issues: Will the Fair Dealing Model be adopted nationally?"

   We refer you to one of our first comments that suggests that before the FDM is implemented the OSC must first ensure that the FDM will be adopted nationally. If the FDM does not include all provinces this will result in a significant increase in the costs of operating in Canada.

2) The costs benefit analysis should take into account that many advisors work with clients with small accounts. As per our previous example, a review of our database indicates the following:

   IPG clients with assets < $ 25,000 is 50% of all of our clients
   IPG clients with assets < $ 50,000 is 69% of all of our clients

3) Page 83: "The second concept paper will propose significant reforms to the way we license firms and their individual advisors"

   We refer you to our earlier comments in that this second paper may significantly impact the operations of the FDM. The industry should be given another opportunity to respond to this second paper and the FDM should not be finalized until this second paper has been released, reviewed and discussed within the context of FDM implementation.

Appendix A – Fair Dealing Document

1) The additional responsibilities of the "advisory relationship" will make it difficult for an advisor to deal with clients will smaller accounts. Unfortunately the reality is that there are many advisors in the industry who service clients with small accounts and these clients might be penalized if it becomes too cumbersome for an advisor to deal with this client.

2) Pages 3, 11, and 23 - Services Provided

   We believe that it would be sufficient to list only those services that the advisor will provide to the client and that it would not be necessary to list

services that the advisor cannot provide. To cite a practical example, an accountant or lawyer does not begin a new relationship with a client by telling him or her what they cannot do, but rather the emphasis is placed on what the lawyer or accountant can do for the client.

3) Page 4, 12, and 24 – Compensation

   We believe that it would be sufficient to clearly indicate how an advisor will be compensated and that it is not necessary to list every possible compensation arrangement for a client. To take the previous example of an accountant or lawyer, these professionals explain their own remuneration arrangements to the client and do not list all of the other ways that other professionals may decide to be compensated.

4) Page 10 - Advisory Relationship

   The advisor is referred to as an “expert” and this implies a very high level of skill. We are concerned that a client may form an unrealistic expectation from this reference. For example, an accountant who performs tax planning and tax preparation services for clients cannot call him/herself a specialist or expert unless he/she has completed additional courses in taxation which are over and above the courses required to obtain his or her accounting designation. The term “expert” should not be used in the FDD.

5) Page 15, and 27 – Risk

   We are concerned with this example for several reasons:

   a. The reference to “Low Risk” in this example should be classified as “No Risk”.
   b. It is impossible to predict the percentage of the potential for loss in a client account.
   c. There must be some kind of disclaimer which clearly states that any forecasts in performance have the potential to significantly differ from actual performance.

Appendix B – Sample Information Sheets

1) We liked these information sheets and believe that these will be beneficial to clients.

Appendix C – Transaction Information Templates for Financial Services Providers

1) Page 3 - "If fund is sold only with a back end load and there is another fund sold with a front end load that is equivalent except for differences in the management fee, dealer fee or expense ratio, the above disclosure about fees and costs must be provided in writing for both funds."

   We are in agreement with this requirement assuming that this implies a comparison to the same fund manager or funds within the same fund company – an advisor cannot be expected to compare Mackenzie's Ivy Canadian Fund to Trimark's Canadian Fund. It is not fair to require that a advisor be an expert on all products offered by every fund company because many advisors focus on gaining a vast amount of knowledge on the products offered by a limited number of fund companies.

Appendix E – Ongoing Reporting and Monitoring

1) Some of the information which must be included in the account statements is not currently tracked at the individual investor level and there are no "feeds" from the mutual fund companies to provide this information (i.e. gross returns, redemption fees, trailer fees, MER's). We believe that the costs of providing this information should be fully investigated before the FDM is finalized.

2) Any discussion of risk must be simplified so that clients can understand the implications.

Appendix F – Compensation Biases

1) Clients are very sensitive to fees that they are required to pay directly. A case in point is that once the tax department no longer allowed the deductions of trustee fees for registered plans, the pressure from clients eventually forced the fund companies to absorb these fees.

   Clients will also be "dissatisfied" with the fact that they will also be required to pay GST on any fees that they are paying directly.

2) Many of the proposals herein translate to the shifting of responsibilities and costs from the fund company to the mutual fund dealer. This is a concern because many mutual fund dealers run small operations and any increased pressure on profitability interferes with dealers being able to survive in the market place.

3) Page 6 - “Indications are that it takes three years for advisors to return to their prior income levels after making the change to fee base”.

   It is important to keep in mind that a change to fee base usually requires establishing minimum assets for clients. Since many clients would probably not meet this minimum asset base, this would create a permanent reduction in income for the advisor. The additional requirements of the FDM would also increase the costs of providing these services to clients which again creates a permanent reduction in income for the advisor.

4) Page 8 - “Place Clear Responsibility for the Actions of an Advisor on a Third Party who compensates the Advisor”.

   We do not believe that this is an acceptable option because this will encourage fund companies to purchase the financial distribution network and significantly reduce independence in the industry.

To conclude, IPG wishes to again thank you for the opportunity to respond to the FDM and we appreciate your willingness to consider the issues we have raised. If it is determined that further discussions are necessary, please do not hesitate to contact the undersigned at (613) 738-3388 x226 or by email at vvalenti@joinipg.com.

Sincerely,

Vince Valenti
President

cc: Gilles Boileau, Chief Financial Officer
Anne Valenti, Vice-President
Donna Boucher, VP, Operations
Colleen Gibson, Compliance Officer