MANAGEMENT
A CMA SUBSIDIARY

May 4, 2004

Mr. John Stevenson
Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, ON M5H 3S8
Via E-mail: **jstevenson@osc.gov.on.ca**

RE: FAIR DEALING MODEL CONCEPT PAPER COMMENTS

Dear Mr. Stevenson:

The following comments are in addition to comments submitted December 5, 2002, and February 3, 2003, where we have commented on duplication of regulatory efforts, increased costs, and possible ineffectiveness of select items.

Consumers can face bewildering complexity and obfuscation as they endeavour to make sense of financial choices. We agree that there is a need to have this addressed in the industry.

Given we endeavor to act in the best interests of our clients and offer no-load funds provided by salaried financial planners, we agree in principle with your proposals regarding clear disclosure of risk and advisor compensation. We also appreciate your leadership in being innovative and not restricted to traditional solutions. This has been a benefit to us – giving us pause to review what we do in terms of risk assessment, disclosure, statement intent, etc. This internal discussion will continue with a view to how we can make incremental improvements.

We do have some practical concerns on how this is expressed which will be detailed in this response. We do not feel your proposal recognized sufficiently the unique business model under which we operate – providing wholesale financial services to Canadian Medical Association (CMA) members. We are corporately organized in such a way that may make implementation of your proposals difficult. Within our group of companies, we have a fund management company managing the managers of our mutual funds, and a distribution company employing salaried financial planners. The fund's distribution company charges the fund's management company for the cost of providing the financial planning services (principally the salaries of financial planners). This is not related to sales volume, nor is there a profit built into this charge. It is a membership benefit of the CMA. We are concerned that our type of corporate structure will be caught up in some of your third-party fund payment proposed restrictions. As a subsidiary of the CMA, we only deal with CMA Members and their families. These regulatory changes must continue to allow us to operate within these constraints of providing services to Members and their families only.

We disagree that accounts with different objectives must always be looked at separately – even separating to different representatives. The principle of financial planning is to examine the big picture first, understanding the possible interrelationships in different accounts, even if the client selects some of the investments and others are coming from our advice. The Fair Dealing Model essentially seems to abandon the holistic approach which will leave investors considerably more confused as to what they have and where – where there may be an unrecognized increase in risk because of duplication of specific holdings in a variety of accounts monitored by different people. The financial planner will have to, inevitably, at least accumulate total holdings into some sort of analysis to model retirement income. This activity might seem to cause problems under your principle of portfolio segmentation. IDA policy allows for both activities under one account assuming the necessary agreement has been obtained from the client.

Please note our concerns detailed below in terms of implementing the point of sale disclosure requirements for the 40% of our consultations that occur out of the office.

Your Model also seems somewhat limited in suggesting that advice is always of one level of intensity. We believe, for example, that it is possible in some cases to give asset allocation advice on an account, but stop short in giving specific security recommendations on that account. We think our asset allocation advice is of value and do not feel compromised leaving the actual securities selection of the individual stock up to the client when those are the clear terms of reference on that particular account. This type of situation would seem to be excluded from what you envision.

We would note that significant time and cost will be needed to implement changes such as you suggest – both in preparing the systems, documentation, and procedures, as well as training all personnel involved. In addition, it will take significant time and expense to work through existing books of clients to explain and get agreement on the respective models chosen, to separate various assets into separate accounts, and additional advisors, etc. This might be measured in terms of years, not months. Due to our thin margins, the increased costs will be borne by the consumer.

Finally, please note our concerns below in terms of potential non-harmonization of Ontario Regulators versus the rest of the country. It will not be possible to have Ontario clients alone bear the cost of implementation – it would seem unfair to clients elsewhere to bear this cost if this turns out to be an Ontario only model. We see, for example, a divergence of between what the Fair Dealing Model calls for and trade requirements of the POS Disclosure Concept last year by the CSA and Canadian Council of Insurance Regulators.

The following are specific comments, which we have identified with the page number of your report.

PAGE(S)	**ISSUE**
ix	Disclosure of tax implications of proposed transaction. • We are in agreement with this if this is limited to calling to the client's attention that there is a taxable implication of the transaction. We would disagree with this if this would require us to undertake the liability of making the specific calculation – we refer the client to their accountant/tax advisor.

22 Abandonment of unsolicited orders.

- We disagree with this proposal as we believe marking an order "unsolicited" is a very clear way to make it obvious to the client that this is a "do it yourself" purchase. It could fall within our agreed upon asset allocation and overall account volatility, but it is a specific security selection that by mutual agreement is being made by the client. Our solution would be to continue to allow unsolicited orders as a category within the client agreement.

23 Advisory relationships – Must all trades go through the representative

- It may imply that all trades must go through the representative giving the advice. We allow our clients currently to select the channel they wish to implement the advice given – including paper. We record the advice given should there be subsequent argument. The client is free to implement through the investment representative, online trading, or our trade centre. We believe this flexibility is superior to the delays and expense of having all transactions routed through our consultant.

24 Should we allow representatives who do not meet the current ICPM compensation or proficiency requirements to form Managed-For-You relationships under the Fair Dealing Model? Would this improve access and reduce cost for investors?

- The type of relationship currently works well because of the stringent requirements of compensation and proficiency. Relaxing those standards would result in outcomes contrary to the stated intentions of the Fair Dealing Model. A fiduciary duty is best executed by those trained to provide it and it should be entirely free of potential or actual compensation conflicts. It is highly unlikely that either access or costs to investors would be improved by this suggestion.

26 Can a representative "wear two hats?"

- We disagree with the concerns expressed here. From a financial planning perspective, we must look at the big picture, examining overall account holdings vis-a-vis overall goals. This could easily be subdivided into different accounts that would either have specific advice on investment selection vs. other accounts that do not. Clarity could be achieved by specifically identifying each trade in the "do-it-yourself" account as unsolicited. Of course, if you remove that option, then the problems you identify could well materialize.

27 Implementation schedule needs to provide for sufficient lead-time.

- This can not be overstated in terms of making such significant changes to a system where resources are already constrained. We have little shelf space currently to make these system and administrative changes. These will be expensive to do and mean that other improvements we were hoping to offer clients would be delayed. This, therefore, will come at a cost both to the company and to the client.

32, 49, 50, 52, 56 Meeting proposed requirements by investment representatives who meet with clients outside the office environment.

- 40% of our consultations occur during travel (road trips) ... in client's offices, rural clients, small centres with no regional office. The point-of-sale delivery of information may not be possible (especially for third-party funds), nor possibly the statement of transactions with the level of detail specified in your document. It would be unfair to penalize such a large portion of our business, and our clients, in such a way. The needs of investors outside of the large centres would definitely suffer would this disclosure at the point-of-sale be implemented.
- A different, but related, concern is what impact this would have on our mail-in business.

33 Security-specific risk assessment for each transaction.

- Will this not also cause the client to be subject to levels of unnecessary, duplicate disclosure for trades that are quite familiar; but done from time-to-time or introduced by the consultant and implemented with our Trade Centre? Trade Centre calls will become quite lengthy as this disclosure is repeated time-after-time with frustrated clients being the result. This has a significant cost implication. An opting-out process by the client would be needed for the client with frequent trades of the same security; although this may cause its own tracking problems and delays.

38 Sales quotas.

- We presume you are referring to product-specific sales quotas, as opposed to sales quotas or targets in general. We do not have a problem with the product-specific sales quota restriction, but would like to see it clearly described as such.

53 Accepting a client's suggestions

- How do we track the level of responsibility each party is assuming?

56 Transaction confirmations.

- As per IDA regulations, we suppress some client confirmations for the convenience of our clients. A good example would be regularly scheduled (i.e., monthly) pre-authorized contributions and withdrawals. We send the initial confirmations, but thereafter the transactions are bulked together on the monthly statement.
- We already report commission costs, if any, on our transaction confirmation statements. To do more than that represents a significantly larger challenge.

57, 58 Information required on transaction summary.

- Note that with end-of-day pricing of mutual funds, we would only be able to show approximate prices, or prices based on previous day pricing – which would then be subject to change and confirmed on the transaction confirmation. We foresee problems getting sign-off of this document if the order comes in by paper or fax. We may face increased risk of liability if transactions are delayed while trade instructions are clarified.

58 Reasons for recommendation.

- We like the idea of recording the specific reasons for the recommendation – this is a good discipline for our planners. Our only comment would be that it will take us time to modify our planning software to build this in.

66 Wrap accounts.

- We offer a "quasi" wrap account based on monitoring asset allocation on the overall portfolio – allowing the client to combine multiple accounts and multiple asset classes under this umbrella. We will then advise the client when the asset allocation needs adjustment to stay on target. The client retains specific "do-it-yourself" responsibility on the individual stock holdings within those accounts, and we will offer advice on the mutual funds held within those accounts. This works for both the client and us quite successfully. It would seem that such an offering would have to stop based on your proposals. We do not think that is in the best interest of our clients.

69, 70, 72 Actual returns, target annual returns, and benchmarks.

- We would note that in the various iterations of services we offer, at times we have a target return vis-a-vis an index, not absolute return. In other situations we utilize a target five-year real return. Neither of these seems to fit your definition.

71 Providing rate of return since inception.

- We would note the difficulty in providing a rate of return since inception for assets transferred in from other institutions, where they come in with an unknown book value or date of original purchase.
- We have some relationships that do not have a return target – indeed, getting agreement on a specific number may be problematic.
- The benchmarking work would be an enormous undertaking for our mutual funds – keeping updated, tailored to account mixes, etc.
- We report rates of return at the account level for certain categories of accounts. The calculation of actual returns on individual securities would be a very large undertaking on some of the accounts held with our firm. This would be distracting to the investor – worrying about each security in the short-term vs. the portfolio as a whole in the long-term.

74 Analysis of risk.

- We are concerned about communicating risk levels and the ability to interpret it in the minds of the clients. Consider an international equity mutual fund ... One investor invested 20 years ago and plans to keep it for 20 more – it has gone up 15 times in value. Another investor bought it yesterday using borrowed money. Another plans to cash it out to buy a house next month. Can we use the same risk description to describe it in a meaningful way so that all 3 investors will understand?
- We should emphasize the client communication dimension rather than measurement. The goal is for clients to make informed decisions about the risk that they assume. While measurement is an important tool in that understanding, communication is the greater goal.

76 Account monitoring.

- We believe there is a benefit to monitoring collective accounts by asset allocation only, combined with our ability to manage the managers of the MD mutual funds held within those accounts – which repeats the bulk of mutual funds in those accounts. This business model would not seem to fit in to what you are proposing at all. We feel our clients would suffer as a result.

77 Updating Fair Dealing Model documents in the future.

- We would note that when consultants change on a book, there could be significant delays in working through this more complex procedure with the clientele within that book. Allowance will have to be made for sufficient time to do this.

81 What if only Ontario adopts this model?

- This is one of our greatest concerns and we recognize you have acknowledged the need to address this. Lacking harmonization, it would ultimately mean maintaining two different systems for business processing, statements, and terms of engagement with clients. This would be unworkable unless it was adopted nationally. We do not want to have to tailor statements according to province of residence.

We know it is a subject of future analysis, but do wonder how the life licensing requirements will fit into this new model.

We are willing to work with various entities to move reform and innovation forward. This would, at the same time, assure us that such change would still accommodate our unique business model. I would be happy to discuss in general, the issues raised in this document. Specific, detailed discussions can occur through our Practice Leader, John Klaas (1 800 565-1771, Ext. 235).

We do appreciate the opportunity of giving our comments, and would be happy to elaborate further should you wish.

Sincerely,

MD MANAGEMENT LIMITED

A. Guy Bélanger
Chief Operating Officer