

June 7, 2004

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

Dear Mr. Stevenson:

As President of Jennings Capital Inc., an independent IDA member based in Calgary with offices in Toronto and Vancouver, there are a number of serious concerns I have with the OSC's approach to changing the fundamental principles of the process by which the Investment Industry is regulated through its proposed Fair Dealing Model.

We want to underscore the importance of co-ordination with SROs like the IDA and the Canadian Securities Administrators, in the implementation of any changes to our existing detailed system of co-ordinated national regulation that is currently in place through the IDA. As the FDM memorandum correctly states, any rules developed from the "proposals" would have to consider the existing IDA rules that regulate the client-advisor relationship. As the SROs are responsible for regulating the advisory and sales activities of registrants dealing with the public, it is important that these organizations play an integral role in the development of the FDM.

There are always changes required to any legislation and we must collectively develop the required change on a collective basis of "what is practical and required for the appropriate improvement of the investment industry for our clients." We all must be critically aware of the cost-benefit to any change.

When dealing with any other fee based service – lawyers, accountants – the public does not require them to outline their fees for each phone call. The investment industry clearly states in "every" purchase/sales contract exactly what the commission fee is for that trade.

It is critical that the OSC realize that in formulating the FDM, that more rules will not necessarily result in increased investor protection. For the extremely small percentage of "underperforming" brokers, the industry should not be put into a "straight-jacket" of

overly restrictive legislation that will inhibit the marketplace. The FDM will definitely reduce activity on the National Exchanges and push the investment dealers to reduce the number of smaller accounts in any firm. Too the extreme, should the OSC permit any consumer to litigate the manufacturer of any product?

I will keep my comments brief, since I am sure that you and your associates have received similar letters by many members within our industry.

1. Notwithstanding the enormous amount of man hours expended on reviewing the F.D.M; has there been any in-depth cost-benefit analysis on the suggestions put forward?
2. I would like to point out that 30 years ago, as a analyst, I would visit Europe and meet the “only” market makers where everyone had to deal - the banking community; which, at the time in the early 70’s, constituted virtually all the transactions in the capital markets. Whereas, today, we see an enormous increase in small and mid size investment firms in the Euro Community and the individual investor has the opportunity of “competitive selection” not “selective restriction” in the market place, between independent firms and banks.
3. Re the K.Y.C. Form - the content of this form and necessity to have this completed, not online, raises the liability issue to a fiduciary level for every client.
4. We believe the majority of retail clients will be driven to Discount Brokers or Full Wrap Fee Accounts; consequently, there will be little room for the Independent Dealer and the business will be driven to a few large banks.
5. It is not practical to require that “every” account be forced to view a video regarding Risk. As a C.F.A., I will state to you there is no set “standard” for measuring Risk in the same manner – THE NORTEL STORY.
6. In terms of Fair Pricing on Bonds – how would the “proper” spreads be documented at the firm level and the sales level, and between firms?
7. It would be impossible to meet every account which are represented behind every institutional buyer.

- Measurement Formula's could be very expensive and force the client into an additional cost per transaction.
- Other than a few hits on the OSC website, who has done a proper, independent statistical, and personal interview, analysis of the real marketplace and what is wrong with the existing system? All parties would agree that improving the existing regulations for all stakeholders would be positively received.

I appreciate your request for comments, and I am confident that all parties can come together to formulate an improved system.

Sincerely,

Robert G. Jennings, C.F.A.