

July 14, 2004

Ontario Securities Commission
c/o Secretary to the Commission
20 Queen Street West
Suite 1903, Box 55
Toronto, Ontario
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A. INTRODUCTION

1. Current Industry Trends

Question 1: I agree with your description of current industry trends. One important reason for the growth of omnibus accounts of mutual fund dealer self directed RRSPs that you have missed is to save on annual trustee fees. Clients do not want to pay a \$125 annual fee to a stockbroker/custodian for an RRSP account and another \$125 for a mutual fund self directed RRSP. This issue is **entirely** client driven. Further, an instruction to transfer a stock and bond account “in cash” to a mutual fund dealer (which is a poor solution to the OSC’s perceived problem) **would be advice to sell securities without proper research and analysis on what would be in the client’s best interest.** It would be far better to have an IDA member firm provide opinions and analysis directly to the client for omnibus positions held in self directed RRSP accounts.

I would disagree that this is an industry trend for non RRSP accounts. I am not aware of any omnibus accounts in existence for non RRSP stock and corporate bond positions.

Question 2: **I am not aware of any other relevant business arrangements** that have developed in response to these industry trends.

B. MAINTENANCE OF OMNIBUS ACCOUNTS AT INVESTMENT DEALERS

Question 3: This question is unclear. If you are asking if they are being properly served under the existing arrangements I would answer “yes”. The clients are receiving advice on their mutual fund securities and have the choice of dealing with a discount broker for “self managed” stock and bond business or a full service stockbroker if they want advice and research.

If you are asking the same question where omnibus accounts for dealer self directed plans are abolished my answer would be “no”. Operating two different self directed plans would substantially increase trustee fees to the client, double the number of registered plans at CCRA, complicate foreign content rebalancing issues (through duplication), and double the volume of reporting to customers. This last point should not be underestimated. **The majority of our clients are demanding less paper, not more, and on a consolidated basis.**

Question 4: I think you are over estimating fees paid to mutual fund dealer salespeople for non-mutual fund securities transactions. If a discount broker is utilized no fee is paid to the salesperson. If a full service broker is utilized they take the first \$90 of every commission charged. This minimum commission is probably applicable to 95% of all stock and bond trades, which means that the salesperson receives nothing.

An extreme solution to solving this perceived conflict would be to abolish referral fees to mutual fund salespeople and their dealers from IDA member firms. An exception to this should be for government bond trades which mutual fund salespeople **are** able to advise on in most jurisdictions.

Further, I am not aware of any IDA firm that will accept stock and bond trade instructions directly from the client’s mutual fund salesperson-RRSP or non RRSP. The client entered these positions with a stockbroker in the first place; they exit these positions when their price targets are obtained, without input from their mutual fund salesperson.

Question 5: I would guess that no action is being taken by mutual fund dealers in this regard because we always thought that assets held at an IDA member firm would be covered by **CIPF**. We had no reason to think otherwise. Assets held in trust (RRSP assets) and identified/segregated as such in back office reporting systems should be covered by CIPF and regulator mandated bonding requirements. For example, CDIC clearly states that it covers trust account balances for clients up to their normal limits if the trust account is designated as a trust account and that the trustees can identify individual clients by name, social insurance number, or any similar form of identification.

I can not suggest what actions should be taken because I am not convinced that stock and bond positions are not insured in any way, either by CIPF or our normal bonding requirements set by regulators.

Questions 6: **This is a completely ludicrous statement.** Verifying that a client holds 100 shares of Royal Bank stock instead of 150 shares is a reporting requirement of the trustee, which is no different than reporting a unit balance for Ivy Canadian Fund! This verification procedure reduces trading errors by clients, which can be costly. The existing system is less disruptive to the capital markets. Error corrections and backdating of trades brings us to the other current OSC witch-hunt-“market timing” trades.

Why don’t you take this a step further-mutual fund dealers acting as agents for the trustee can not partially liquidate stock positions for foreign content penalties to

CCRA, transfers out “in cash” under divorce orders, withholding tax, payment of outstanding trustee fees-let the client opt out of all such every day transactions if it doesn’t suit them! That’s progress?

My only answer to question 6 is to reaffirm with IDA member firms that they have to take instructions from the client directly-verbally or through an online trading system. This is the current practice for self directed RRSPs. I have never heard of a mutual fund salesperson executing trades for non RRSP positions in an omnibus account in the 17 years that I have been in the industry.

C. JOINT SERVICE ARRANGEMENTS

Question 7: I am unaware of any situation where mutual fund salespeople service client accounts of an investment dealer and perform trades for them. I did not realize that this was ever permitted because the investment dealers that we talked to always told us that the IDA firm had to deal directly with the client.

I suppose that a short, simple disclosure about the mutual fund dealer being responsible for mutual fund trades and the IDA firm being responsible for non mutual fund securities would suffice.

Question 8: See last paragraph in Question 7 above.

Question 9: Simple disclosures regarding responsibilities, liabilities, and the appropriate investor protection fund would suffice.

Question 10: I can’t think of any alternative solutions that would address these issues. Having said that I am wondering if the OSC Fair Dealing Model would allow mutual fund salespeople to deal with “self managed” stock and bond accounts if the appropriate disclosures are done.

Question 11: Designate such accounts as “self managed” accounts and have the client acknowledge (in writing) that no advice was received by the mutual fund salesperson in furtherance of a trade.

D. ALTERNATIVES CONSIDERED

Question 12: The referral arrangements that you have described here seem to be working just fine for us. As a mutual fund dealer we have no problem with the fact that the client will receive a separate statement for non-mutual fund securities as these would be “off book” items that we prefer not to report on our back office system anyway. An exception would be for dealer sponsored self directed plans where a consolidated statement is a must.

Question 13: Simple disclosure documents would satisfy these requirements as discussed previously, as would a written acknowledgement from the client that no advice was received from the mutual fund salesperson.

Question 14: No.

Question 15: Omnibus account arrangements for self directed RRSPs utilizing “delivery against payment” facilities seem to work just fine, as all of your required disclosures are being made by the MFDA side and IDA side.

I am not aware of any joint service arrangements in existence where a mutual fund salesperson trades in non mutual fund securities for his client. I don't feel that this is as big a problem as the OSC thinks it is since no one that I have talked to has heard of any such arrangement.

Question 16: Restricted to what? Do you mean “restricted” to mutual funds only in the case of mutual fund dealers? I would like to see mutual fund dealers with the ability to offer Exchange Traded Funds (which are just very low cost, liquid, pooled products without trailer fees) and other assets that clients may demand for their “self managed” accounts in keeping with the spirit of the Fair Dealing Model.

Question 17: We will lose our self directed RRSP clients that hold stocks and bonds, with absolute certainty, even if the majority of the account is invested in mutual funds. The impact would be immediate.

These clients have moved their accounts to us because they were not being serviced properly by a previous IDA member. This was a result of stockbroker turnover, higher account minimums at IDA firms that squeezed out clients, poor stock and bond recommendations that blew up the client, etc. **The small to medium size client that wants to hold some individual non mutual fund securities is not wanted by most IDA member firms.**

Current arrangements with clearly defined responsibilities and disclosures provide the best of both worlds: non mutual fund securities with no MER in self directed RRSPs to save on cost as well as ongoing portfolio construction advice from the MFDA channel.

Yours very truly,

Mark S. Kent, CFA
President