CANACCORD
CAPITAL

INDEPENDENT THINKING

May 15, 2006

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

Dear Sir:

Re: Request of Comments – Proposed Amendment to Rule 31-502 – Proficiency Requirements for Registrants

Canaccord has reviewed the Proposed Amendments and, following, provides its comments, both those of a general nature with respect to the securities industry in Canada and also the subject amendment.

It is this firm's view that the time has come to rework the regulation that governs Canada's investment industry. The corporate organizational structure of Members should not be dictated or shaped by the rule book. Its framework should allow for varying business models, innovation and competition for the benefit of the investing public. The industry has developed to a level of maturity where Dealers must be allowed to compete freely (but duly and sensibly regulated) at home and abroad in whatever financial instrument they wish. Now is the time to abolish any 'artificial' barriers to that freedom, especially those that appear to have no correlation to the protection of the public interest..

In harmony with the IDA, the IDA – Industry Association, and the majority of the Canadian Dealer community, Canaccord heartily endorses the proposed amendment to Rule 31-502; i.e., the deletion of paragraph 2.1(3)(c). This is a tangible start on 'winnowing the rulebook' to a more sensible, practical, fair and cost-cognizant document. As it relates to the Canadian scene, this amendment goes a long way to leveling the playing field between Investment Dealers and MFDA members. We understand that there once was concern that the MFDA needed

'protection' in order to survive financially. We agree with your assessment that this is no longer necessary.

There is a second section of the Rule, para. 2.1(6), (which goes hand-in-hand with 2.1(3)(c)) that we believe also deserves your immediate attention. In fact we submit that its abolition is of equal or even greater importance in achieving the result that you intend with the Proposed Amendment. The '270-day' provision was established as a transition 'period of grace' to grant those restricted license registrants, joining (or intending to join) IDA member firms, temporary relief from the requirement to become fully licensed immediately. We disagree with the proposition that an Investment Dealer may not permanently employ salespersons with a restricted license and submit the following in support of the immediate abolition of section 2.1(6):

1. Investment Dealers currently effectively transact and supervise tens of billions of dollars in Mutual Funds each year.

2. The By-Laws and Rules of the IDA contain stringent capital rules and supervisory standards for the ethical and 'safe' dealing in Mutual Funds to the benefit of those investors who choose purchase and/or deal in Funds.

3. The IDA's infrastructure meets or exceeds all aspects of the MFDA sales compliance regime.

4. Oversight within individual dealers is readily capable to ensure that those who hold Restricted licenses deal only, to the benefit of their clients, in the products for which they are both registered and proficient.

5. Some registrants are skilled in, and comfortable, dealing only in the 'Funds' business. It is/would be dangerous to the investing public to force/require those registrants, just because they wish to join an Investment Dealer, to 'scale up' their credentials to a level where they may not fully understand and/or wish to fully understand the business that is encompassed by a full registration. Some registrants prefer to deal in Funds only; as such, they should be able to work with the registered employer of their choice and not simply be forced to remain with a Mutual Fund Dealer.

6. As with the Proposed Amendment, abolishing the '270-day' provision levels the playing field between Investment Dealer and Mutual Fund Dealer.

7. Current limitations on the holding of Restricted Licenses in IDA firms:

    a. require them to set up MFDA subsidiaries causing cost ineffectiveness and/or duplication for no tangible/real value; and,

b. produce additional, redundant regulatory requirements which provide no benefit to the investing public.

8. Current limitations unreasonably preclude existing IDA operational infrastructure from being used by qualified Members to provide 'carrying' services (i.e., trade execution; clearing and settlement; books and records services) to MFDA firms.

While not entirely germane to this discussion, we wish to briefly raise the subject of IA incorporation. The link to this topic is, of course that, based on an application by the MFDA in 2000, and granted in 2001, a concession was made by certain provincial Commissions to the MFDA (and hence their Members) to waive the regulatory requirement that commission revenue could be paid by the employer/principal only to a registered person and not, as was the custom within their 'community', to a non-registered, personal corporation which was controlled by the salesperson.

IA incorporation has been a topic of discussion for many years within the Investment Dealer community. It is an option that is frequently requested by, and would benefit, a great many fully licensed registrants. Given that MFDA dealers have had that competitive advantage, blessed by the regulators, for over 5 years, and given the fact that no material (if any) harm has come to the MFDA or the investing public during that time, it would seem reasonable that changes to the existing securities legislation, which prohibits this, be fast tracked to allow all registrants, should they choose, to utilize this option.

In summary Canaccord supports the proposed amendment to eliminate paragraph 2.1(3)(c) of OSC Rule 31-502, and respectfully urges that, for the reasons listed above, immediate consideration be given to the elimination the '270-day' limit as set out in paragraph 2.1(6) of the same rule.

We would be please to discuss this submission if you have any questions.

Yours truly,

CANACCORD CAPITAL CORPORATION

Michael G. Greenwood
President, Chief Operating Officer