October 19, 2006

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Nova Scotia Securities Commission
Prince Edward Island Securities Office
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Registrar of Securities, Legal Registries Division, Department of Justice, Government of Nunavut
Registrar of Securities, Government of Yukon

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1903, Box 55
Toronto, Ontario M5H 3S8

- and -

c/o Anne Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
Tour de la Bourse
800 square Victoria
C.P. 246, 22e étage
Montréal, Québec
H4Z 1G3

Dear Sir or Madam:

Re: Proposed National Instrument 23-102 - Use of Client Brokerage Commissions as Payment for Order Execution Services or Research

Thank you for the opportunity to provide comments on the proposed National Instrument 23-102 – Use of Client Brokerage Commissions as Payment for Order Execution Services or Research (NI 23-102).

About Veritas Investment Research Corporation

Veritas Investment Research Corporation (Veritas) was established in 2000 in response to perceived need in the Canadian investment industry in the Canadian investment industry for an independent research entity with a strong foundation in accounting.

Veritas is registered with the OSC as Investment Counsel, Limited Market Dealer and Portfolio Manager. We provide our research to approximately 40 institutional clients, most of whom pay through a third party brokerage. We also have an exclusive arrangement with RBC Dominion whereby their retail representatives receive our research.

We do no underwriting and accept no fees from companies. The monies received from our institutional clients and RBC Dominion represent our sole income.

If we are to continue to provide our product, it is imperative that we be allowed to compete for all commission dollars available for research, not just those pejoratively referred to as soft dollar.

More information on Veritas can be found at www.veritascorp.com.

We have reviewed the attached submission from Commission Direct Inc. and wholeheartedly agree with their position regarding payment for third party expert research.

Sincerely,

Michael Palmer
President
Veritas Investment Research Corporation

Context in which we make our comments

Our comments on proposed NI 23-102 are focused on the arrangements between registered advisors (money managers) and investors who place their funds under the management of money managers for a fee. This management fee secures the money management services of the money manager but does not cover the costs incurred with respect to the client's portfolio transactions which costs are colloquially referred to as "commissions".

"Commissions" are fully disclosed on trade contracts and cover payment for a bundle of services including trade execution, research and related investment-decision making services. Until regulatory changes were made that allowed commissions to be negotiable (1975 in the United States and 1983 in Canada) these services were only available on a bundled basis from full-service investment dealers. Once commissions were deregulated, the services became available on an unbundled basis both from full service dealers and from independent providers of research and related investment-decision making services. Many full service dealers also allowed money managers acting on behalf of their clients to direct some of the commission dollars to third parties to acquire such services.

Unfortunately, the ability to unbundle or identify trade execution costs from the other services covered by commission dollars (the commission spend) led to the view that the balance of the commission spend was an inappropriate cost to be borne by the client. This situation was aggravated by some questionable services being included.

We firmly believe that when investors hire an advisor, they expect that advisor to use all the tools available to him/her including outside research to make sound investment decisions. In this context, the benefit of the commission spend belongs to the clients and that money managers have a fiduciary responsibility to those clients to ensure that the total commission spend whether it is used to acquire trade execution and/or research and related investment decision making services. We have structured our business operations to assist money managers in carrying out their fiduciary obligations.

Regulatory treatment of eligibility of services, accountability of financial advisors and disclosure requirements on the commission spend has a profound impact on the viability of the Canadian money management industry domestically and internationally. Money management may be the most portable industry on earth and easily moves to the most hospitable location. It is important that Canadian regulators recognize this and ensure that their requirements are consistent with those of the competing marketplaces – the United States and the United Kingdom.

General Comments

We strongly support the CSA in their initiative to improve disclosure on the money manager's use of client commissions and to provide greater clarity as to what services qualify for payment with those commissions.

We believe that regulatory harmonization both domestically and internationally is important as it concerns commission use and linking those who pay the commissions with the benefits received is paramount.

Concern expressed about the conflict of interest facing money managers spending client commissions to pay for research and brokerage services is valid. However, it is important to recognize that there would be an equal or greater conflict of interest facing money managers if they could not pay for research and related investment decision-making services with client commissions. If this were the case, money managers would have to make a decision each time they bought investment advice or brokerage services, whether or not, to cut into their profit margins to pay for additional inputs. British, American and Canadian Regulators have chosen wisely to permit advisors to pay for research, related investment-decision making and brokerage services with client commissions and to create a system where transparency and disclosure will prevent abuses.

In creating such system, it is essential that regulators recognize that investors have a choice in having their money managed to have it managed actively or passively. If commission payments are a concern, the investor may want to choose a passive manager who pays execution only commission rates. An active management mandate will require more research inputs to identify trading opportunities where overvalued securities are sold and undervalued securities are purchased. Tying research costs to various transactions keeps these costs variable since they are only paid when a transaction is executed and more than an execution only commission is paid. Linking research costs with transactions aligns the interests of advisors to their clients as they continually use research to identify miss-priced securities and execute trades on behalf of their clients to increase the value of their portfolio.

Proposed National Instrument 23-102

Defining Principle

Our understanding is that NI 23-102 is intended to be "principles based" and provide guidance for the use of client commissions. This being the case, it is important to clearly articulate its fundamental guiding objective that would become the "defining principle" against which to measure the implementation of its goals and provide for consistent interpretation.

The CSA has set four goals for this policy initiative:

1. To provide investors with more information about their advisor's use of soft dollar commissions.

2. To harmonize the rules for goods and services that can be purchased with client commission across the CSA and to take into account international developments

3. To clarify which goods and services can be acquired with client commissions and to assess their true management expense

4. To increase confidence that commissions are ultimately benefiting those that pay them

These goals are indicative of a regulatory intent to align the interests of the investor and the advisor or money manager. We recommend that this be clearly stated as the fundamental defining objective or principle of the policy and that this be accomplished by adding a simple statement

that: “The objective of NI 23-102 is to provide a framework that aligns the interests of the investor and the money manager or advisor.”

The addition of such a statement would:

- Tie the CSA’s goals together much more effectively under the umbrella of the proposed overall objective.
- Make it easier to define the scope of each goal so that only meaningful information need be provided.
- Make it easier to define and eliminate inconsistencies.

The adoption of this objective will also insure that the interpretation of the requirements of this Instrument as it addresses innovation and change will remain consistent.

Specific Concerns

We have some concerns that as proposed NI 23-102 has some serious shortcomings in that it does not meet impartiality standards that would treat all investors equally, it does not harmonize with regulation in the United Kingdom or the United States of America and it places onerous and costly disclosure demands on money managers which do not appear justified as measured against meaningful disclosure.

More specifically, we are concerned that the proposed instrument:

- Is inconsistent with regulatory treatment of commission use in the USA and accountability standards in the United Kingdom. The impact of this is discussed below under the heading Inconsistent Regulatory Treatment.
- Does not recognize that Canada’s markets are tiny as related to the global markets for equity securities. Canadian investors would be much better served by a money management industry comprised of both large and small firms competing in a meritocracy where ease of entry insures innovation and competition.
- Clings to the “soft dollar” term that other regulators have recognized as having served its time and have dispensed with because the term is confusing and leads to the treatment of research based on source rather than content as well as having taken on a pejorative connotation.
- Imposes unnecessary disclosure and record keeping at the Advisor/money manager level (that will add to costs) with no demonstrable benefit to the investor.
- Discriminates against certain styles of money management through prescriptive definitions of permitted services.
- Fails to recognize that advisors outside of Canada can compete very effectively with domestic managers for Canadian mandates. Any cost advantages enjoyed by these international advisors could translate into the decimation of the Canadian money management industry.

- Fails to recognize that "money management" is a very transportable business where each function can be located where the regulation and the cost structure are most favorable. Initially, multinationals will take advantage of regulatory inconsistencies by relocating their research departments in the USA if the proposed Instrument is not changed. Domestic advisors will eventually have to make the choice of accepting lower margins as research cost are shifted to them or moving to more receptive jurisdictions. Hollowing out Canada's money management industry would not be in the interests of investors or advisors.

Inconsistent Regulatory Treatment

Inconsistent regulation in the USA and the United Kingdom (see attached table comparing regulation and definitions in the United Kingdom, the USA and Canada) makes it impossible to harmonize Canadian policies with both of those countries. The CSA must determine the most favorable alignment of its requirements respecting the use of commission dollars with those regulators.

FSA Policy Statement 05/9 vs. SEC Section 28(e) – Research & Brokerage Services

FSA Policy 05/9

- The FSA Policy favors using more prescriptive definition of permitted services and is more restrictive on the use of commission dollars (dealing commissions) to buy research than the SEC**.**

- The FSA restrictions transfer more costs from the investor to the advisor; thus increasing fixed costs and lowering variable costs

- The FSA Policy favors larger advisors that can absorb these costs.

- Ease of entry into the money management business restricted by increased costs

SEC Section 28(e)

- Is less prescriptive and allows more latitude in defining permitted services resulting more use of client commissions to purchase research, investment decision-making and brokerage services

- Results in overall costs borne by investors remaining more variable – costs for research are only incurred when a trade is executed and a commission greater than execution only level is paid

- Does not discourage larger advisors but protects viability of smaller money management firms

- Ease of entry into money management business not restricted by the costs

CSA Proposed NI 23-102

- Is more restrictive in defining permitted services than the SEC

- Transfers more costs to advisor – raises fixed costs – lowers variable costs

- Favors "big is beautiful" in order to absorb more costs

- Makes entry to money management industry more costly

- Could lead to more consolidation and less competition where today's meritocracy would disappear – Investors lose.

Commentary

The CSA's decision to align with the FSA in restricting permitted services is not optimal.

The Canadian market is small and is best served by a money management industry in which all sizes of money managers can compete. The FSA treatment of permitted services transfers more variable research cost from the investor to the advisor. This transfer obviously favors larger managers with deep pockets and promotes consolidation.

The CSA must align more with the SEC in its permitted services definition to protect the viability of small firms, encourage competition and new entry and not lose research functions and managers to the USA.

As well most of Canada's qualified money managers are Chartered Financial Analysts and have the ability to evaluate research and related services to make investment decisions. The arbitrary decision that CFAs domiciled in Canada cannot use commissions to acquire services like raw data and publications to compete with American CFAs (hours away and in the same time zones) does not bode well for the Canadian industry.

FSA 05/9 vs. SEC Section 28(e) – Accountability & Disclosure

FSA 05/9

- Bundled and third party research treated the same (by content)

- Commission spend must provide value to advisors' clients

- Requires disclosure of commission allocation policies, a description of the service and why commissions were used to pay for it, research cost breakdown and evidence that final cost of research has been negotiated (implies a need for monetization of research)

- Disclosure of those paying for the service and those benefiting from its use

SEC Section 28(e) and Advisor Act Form ADV

- Bundled and third party research treated the same (by content)

- Commissions must be reasonable in relation to the value of the services acquired

- Requires disclosure of commission allocation policies, description of services acquired linked to brokers providing them – at present no costing of each service is required but a

"concept paper" is expected shortly to add disclosure and accountability factors so that plan administrators are not blind to commission expenditures

- Disclosure of those paying for the service and those benefiting from its use

Proposed CSA NI 23-102

- Bundled and third party research treated differently
- Commissions must be reasonable in relation to the value of services acquired
- Does not require commission allocation policy and only requires an overall description of bundled research services acquired – no monetization.
- Third party research accounted for separately and monetized
- Disclosure of those paying for a service and those benefiting from its use

Commentary

We believe that disclosure requirements in the US Advisor's Act and Form ADV Part II are very close to the new FSA disclosure standard in England. The CSA's proposed NI 23-102 is more closely aligned with SEC Section 28(e) as it stands today. The expected SEC concept paper could easily call for additional costing or monetization of bundled research to address the concern expressed by an SEC commissioner that plan administrators are blindfolded to plan commission costs. Should this take place, Canada would be left behind in disclosure standards by failing to require disclosure of the advisor's commission allocation policy and by failing to require monetization of bundled research and related services.

Proposed NI 23-102 differs from other regulatory rules in that it does not call for a commission allocation policy from advisors. Most money managers have commission allocation policies. Other regulators recognize that investors need these policies to evaluate and anticipate advisors' use of plan assets. These policies can be used as a benchmark to compare the actual commission spend.

Unlike the UK and the USA, proposed NI 23-102 treats bundled and third party research differently for accounting purposes. To our knowledge, this is the first time that a regulator has distinguished research based on source rather than content. There is no basis for this choice which places additional compliance costs on Canadian money managers. It discourages the acquisition of third party research possibly penalizing investors and adds a sales hurdle to independent research providers. The disclosure of the overall cost of research as related to assets under administration along with a description of the research received is far more meaningful to the investor than separating such research by source

The global direction on accountability and disclosure requirements is clear. Why not demand standards at least as high as England and force industry participants to innovate, cooperate and produce the necessary reports now.

Terminology

Regulators in the United States and the United Kingdom as well as the CFA Institute have recognized that the term "soft dollar" is confusing; has served its time; dropped it; and now target the entire commissions spend. They recognize that investors are more interested in their commission costs as related to assets under administration. Those who are interested in breaking out research costs from overall commission are not interested in research origin – if they are they can go directly to their managers.

The term "soft dollar" is probably the most hated and misunderstood term in our industry. Unfortunately, when misused publicly by industry participants or the press, regulators have never stepped in to demand correction or amplification. A good example is the statement by a number of US Mutual Funds that they no longer "soft", yet they continue to pay full commission rates to bundled dealers. If the CSA insists on retaining the term, Canadian regulators must commit to ensuring that it will not be misused in the public press or by industry participants.

The term "soft dollars" confuses investors and serves no purpose because on any trade (especially with a bundled dealer) the execution costs can change and the portion of the commission going to other services not disclosed.

The term "soft dollars" is used in NI 23-102 to distinguish research by source whereas content is a much better measure of research value.

We urge regulators to ensure that the accountability and disclosure standards targeting research and brokerage expenditures treat all research, whether bundled or independent, equally as part of the commissions spend. The proposed NI 23-102 will not do this as long as "soft dollars" only target independent research. Regulatory discrimination in requiring more disclosure for independent research seriously impairs the competitive position of independent research providers.

Much better disclosure measures for commission expenditures have been introduced by commission management systems hosted by Cogent Consulting in the USA and Rontech in England. Both firms currently market their systems in Canada. We urge the CSA to take these into account.

We urge the CSA to join their regulatory counterparts in England and the USA by targeting the entire commissions spend for disclosure and accountability. Disclosure and accountability requirements cannot favor one provider of research over another.

We favor more disclosure on all commission expenditures on an unbiased basis. More accountability for commission expenditures will result in more execution only trading as total research costs come under more scrutiny and limits are placed on the total spend for research. Execution only commissions, once disclosed, will attract more analysis, more comparison and therefore, more competition.

Test of Time

If you review the attached "Framework Respecting the Use of Commission Dollars to Acquire Goods and Services" and the letter written to the then Chairman of the Ontario Securities Commission (Edward Waitzer) you will find that the recommendations in this framework have

withstood the test of time. One of the prime tenants of that framework was to drop the term "soft dollar" and to focus on the appropriate or acceptable use of commissions.

This document was part of our submission to the Financial Services Authority (FSA) in England, to the United States Securities and Exchange (SEC) and to the CFA Institute in response to their respective requests for comments. All of these bodies saw the merits of the Framework's recommendations and have revised (or are in the process of revising) their policies to deal with trading commissions and you will not see the term "soft dollar" in their revised policies.

This "Framework" was not the work of one firm or individual. The Framework incorporates contributions from a broad cross section of Canada's investment industry and has served as an operating and regulatory guide for the industry. The Framework's content and recommendations are as valid now as they were then and we urge the CSA to adopt the recommendations in this submission.

Mandated Disclosure – Use vs. Cost – Material vs. Immaterial

We strongly believe that the CSA is correct in using transparency and disclosure to make advisors more accountable to their clients. However, disclosure has costs attached, both in monetary expenditures and time commitments. If investors don't care or don't want details of certain processes or expenditures, then money managers should not have to bear the expense of providing that information. Using the attached table outlining different regulatory treatment of commissions, we question the need for disclosure of the following items:

- Commissions by asset class. Trading activity by asset class will vary depending on market conditions, interest rate movements, rebalancing etc. One should not expect consistency from one period to the next. It is the total commission cost related to assets under management that investors care about and that they can understand.

- Distinguishing treatment of bundled and third party research. Research is research regardless of the source.

- Date goods or services were received. The requirement for this disclosure involves tremendous time and expense on part of the advisor to log phone calls, emails, report reception and the like. We question the relevance of this information to investors and fail to see how investors would or could use this very costly information.

- Breakdown of execution only commissions by asset class and broker. These statistics would only confuse investors and require that money managers tip their hand to competitors as to how they do business.

Style Discrimination Present in NI 23-102 Must be Eliminated

- Classifying raw data as not permissible research service disadvantages quantitative and momentum investors that need this data to build and test investment models. Quantitative analysts are constantly mining raw data to find security relationships, reversion trends and historical reactions to economic stimuli to identify investment opportunities. As competitors discover these same opportunities, they have to move on to new tests. Only raw data can be used for this type of research.

- The blanket removal of investment seminars from the permitted list hurts small advisors, especially those specializing in exotic areas or high tech areas where the fast pace of change requires constant upgrading of knowledge and innovation. Many industry leaders will only address the investment community through public seminars where all attendees have equal access to their presentations. Seminars with more social content than research content can be disqualified.

- Industry Publications are a "must have" for advisors attempting to stay abreast of change and opportunities in specific industries. Advisors should be able to use commission dollars to obtain these aids to investment-decision making.

Conclusion

In conclusion, we urge the CSA to modify NI 23-102 to provide for:

- Aligning NI 23-102 to conform most favorably and strategically with the policies of other regulators to protect Canadian investors and provide the best environment for investment.

  In this respect, we recommend that NI 23-102 adopt the SEC definition of permitted services as being much more aligned with Canada's need for market participants of all sizes and entry costs being kept to a minimum.

  The FSA's more stringent demands on disclosure and transparency in pricing research may be more difficult to comply with short term. However, if plan administrators or trustees are to get value from their commissions spend, they must have that information. Research providers will become more efficient in delivering only value added services.

- Introducing an overall objective into NI 23-102 to expressly align the interests of the investor and the money manager. This will serve as the underlying guiding principle of a principles-based system that can protect the investor and retain the flexibility necessary to allow innovation. Expressly aligning the interests of the investor and the advisor will serve as the back-drop to all future interpretation of the rules.

- Eliminating the term "soft dollar'. The term soft dollar has served its time. Let it go and stop the discrimination against independent providers. Treat research as other regulators treat it – by content not source.

- Ensuring that additional disclosure requirements serve a purpose. The acid test is whether investors will actually use the reports generated.

  Canadian regulators could take a leadership role by allowing services that enhance compliance reporting as permitted services. The investor pays for compliance sooner or later. Full disclosure of the price of compliance may result in marginal requirements being dropped or at least minimized to save money without sacrificing protection.

- Recognizing that shifting variable costs from the investor to fixed costs for money managers sets up conflicts of interest between the investor and the money manager and must be minimized. The investor eventually pays for research and is better served by attaching costs to transactions.

- Eliminating the prescriptive regulatory definitions in NI 23-102 of permitted services that favor one style of money management over another.

We believe that these recommended changes in the proposed NI 23-102 will level the playing field for Canadian advisors competing at home and abroad for money management mandates. Investors will be well served and have more and better information from which to make decisions on advisor selection. The Canadian money management industry will remain competitive and grow as a meritocracy to the benefit of Canadian investors.

Yours very truly,

Commission Direct Inc.

Wayne B. McAlpine, President & CEO