



British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
New Brunswick Securities Commission
Securities Office, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Nunavut
Registrar of Securities, Yukon Territory

c/o John Stevenson, Secretary
Ontario Securities Commission
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Suite 1903, Box 55
Toronto, Ontario, M5H 3S8
e-mail: jstevenson@osc.gov.on.ca

and

Madame Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
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**RE: NOTICE OF PROPOSED NATIONAL INSTRUMENT 23-102
USE OF CLIENT BROKERAGE COMMISSIONS AS PAYMENT FOR ORDER
EXECUTION SERVICES OR RESEARCH (SOFT DOLLAR ARRANGEMENTS)**

Dear Sirs and Mesdames:

First Coverage (formerly iSequent) is a privately-held Canadian company which was founded in 2005 through the combined efforts of financial industry experts and successful technology entrepreneurs.

The foundation of the company is built on the concept of making the financial

services industry more accountable and transparent while also delivering improved communications and work-flows for all involved – sales people, investors and managers.

Our primary solution, also called 'First Coverage' (www.firstcoverage.com) is a web-based software application that objectively measures, ranks and values the complete worth of each relationship between buy-side executives and the institutional sales people that cover them. It is currently being used by over 75 firms and is experiencing month-over-month growth well into the double digits.

For the last two years, First Coverage has been working with industry participants to resolve many of the same issues being addressed by proposed National Instrument 23-102. Through many discussions with regulatory bodies, buy-side portfolio managers and heads of many sell-side desks we are happy to respond to the CSA's request for comments and present a holistic view on these relevant topics informed not just by first principles but also by what the industry currently needs and is willing to implement.

Specific Responses

We believe that greater transparency and accountability in the use of soft dollars is in the best interests of the entire securities industry. By having firms focus on newer notions such as 'Best Allocation' (How can we, as a firm, use commissions in a more optimal manner?) and 'Return on Commission', (How can we, as a firm, generate the greatest returns for our investors from every commission dollar we spend?) the industry will likely see the same benefits which have accrued from years of focusing on the similar notion of 'Best Execution'. We support the CSA's initial steps to draw attention to this matter and have provided our responses to the questions where we feel we can add some value.

2) What circumstances, if any, make it difficult for an adviser to determine that the amount of commissions paid is reasonable in relation to the value of goods and services received?

Until quite recently, there were no software solutions permitting clients and advisers to evaluate the value of soft dollar arrangements. Historically, solutions put the onus on the adviser or investor to input and track the goods and services coming from the dealers which created significant burdens upon advisers and were therefore precluded for all but the largest investors. Newer solutions remove this onus completely. These solutions have only been available for a couple of years and adoption is occurring rapidly in several jurisdictions, including Canada, even without any regulatory imperative.

Today there exists the ability to create a process that allows the buy-side to quantify the services provided without additional administrative burden.

To determine the reasonableness of a commission allocation versus the value of the services provided, it is necessary for an adviser to have access to the following information:

- 1) The amount of commission allocated to any party;
- 2) The services that were provided by said party; and
- 3) The value of the services provided by said party.

Until recently, it was difficult to maintain records beyond what aggregate commission dollars were allocated to each dealer. It was a large administrative burden for an adviser to keep track of all the services being provided by the dealers. As the number of dealers providing services grew and the amount of data increased, this job went from difficult to nearly impossible.

Solutions are now available that allow the required data to be aggregated and stored with no administrative burden to the adviser. Furthermore, these solutions can scale in relation to the number of investment professionals at any one firm.

Today, it is relatively simple for these solutions to generate the necessary outputs to satisfy requirements which demonstrate fair value is being paid for sell-side services.

This is an example where technological advances, although still unknown by many industry participants, can support greater transparency enhancing the effectiveness of these arrangements without any administrative burden.

11) Should the form of disclosure be prescribed? If prescribed, which form would be most appropriate?

A standard form of disclosure is preferable for two reasons.

First, whatever the level of transparency prescribed, it allows for apples-to-apples comparisons for the adviser and clients.

Second, a prescribed format ensures that solution providers work towards products that satisfy the needs of all advisers and brokers alike.

12) Are the proposed disclosure requirements adequate and do they help ensure that meaningful information is provided to an adviser's clients? Is there any other additional disclosure that may be useful for clients?

The proposed disclosure requirements are adequate from a transparency point of view and do help ensure that some meaningful information can be evaluated by advisers and clients. Disclosing the amounts and percentages that were spent with any one party in a variety of categories is a strong first step, but doesn't

answer the obvious question of, 'what did the fund / investor get in return for the percentage of commission allocated to any one dealer?'

While we do not advocate that the detailed list of all services from each dealer be disclosed to clients, we do have two additional pieces of information which we recommend be disclosed and we feel would be of use to clients.

First, we suggest that advisers include a statement to the effect that 'they are utilizing an internal process which allows them to ensure that fair value is being paid to dealers in return for services being purchased' as prescribed in Part 3.1(2)(c) of National Instrument 23-102. As the issue of commission allocation continues to gain visibility, we believe a statement to this effect would give comfort to investors.

This type of statement would also spur an internal process where by trustees, boards, fund managers and others participate in the evaluation of compiled data in a meaningful manner. It would assist in guaranteeing that the outcome of any implemented National Policy is not firms merely participating in an exercise to gather and disclose data, but also to interpret the data and ensure it is demonstrating that soft dollars are being used appropriately.

Second, we suggest that advisers disclose situations where they are aware of material discrepancies between the value obtained and commissions allocated to a dealer over a certain time period. The adviser should always be in a position to compare value obtained with commission dollars allocated.

13) Should periodic disclosure be required on a more frequent basis than annually?

There is no need for disclosure to be made more frequently than annually, however, we believe that there is a need to adopt a process that is continuous and which collects information in a prescribed manner upon request.

This will permit an adviser or client to identify situations where they are over-paying for services or allocating to broker-dealers that aren't demonstrating value on an ongoing basis.

14) What difficulties, if any, would an adviser face in making the disclosure under Part 4 of the Proposed Instrument?

As we have discussed above it is only recently that solutions exist that avoid the need for the buy-side to invest in substantial new systems, hire third-party advisers or recruit more staff to satisfy the level of reporting contemplated by the new disclosure standards.

Conclusion

We view the CSA Proposal as a catalyst that will spur advisers and clients to obtain a better understanding of the value they are receiving for the hundreds of millions of dollars being spent annually in Canada on bundled services. We hope the above discussion is helpful to you in your deliberations. We would welcome the opportunity to speak with you if you have any questions.

Regards,

A handwritten signature in black ink, appearing to be 'Randy Cass', with a long horizontal line extending to the right.

Randy Cass
Chief Executive Officer
First Coverage Inc.