

June 7, 2007

Leigh-Anne Mercier
Senior Legal Counsel
British Columbia Securities Commission
P.O. Box 10142, Pacific Centre
701 West Georgia Street
Vancouver, B.C.
V7Y 1L2

Dear Ms. Mercier,

This letter is in response to **BCN 2007/12 – Request for Comment on Proposed National Instrument 11-102 Passport System.**

We have responses to two specific questions in the notice, as well as a general comment on the envisioned requirement for dealers to join an SRO.

Question:

“The British Columbia Securities Commission seeks comments on the relative costs and benefits in British Columbia of harmonizing with the other CSA jurisdictions to create and exempt market dealer category and in doing so, eliminating the registration exemptions for capital-raising transactions and the sale of those securities, referred to in some jurisdictions as ‘safe securities’ (i.e. government guaranteed debt).”

Response:

Our view is that such a category is unnecessary and does not provide additional protection to the investing public.

By their very nature, exempt market securities are distributed to:

- investors who are sophisticated and who have the ability to assess the benefits of any proposed investment, or
- investors who are already in a relationship whereby they can assess the trustworthiness of the dealer.

The proposed new category would be superfluous to these facts and would impose significant new burdens on dealers, without any improvement in the regulatory regime.

Question:

“Registration for managers of all types of investment funds (other than private investment clubs) is proposed. Are there managers of funds for which the risks identified are adequately addressed in some other way and therefore registration as a fund manager may not be necessary? If so, please describe the situation.”

Risks that have been identified include:

- incorrect or untimely calculation of net asset value
- incorrect or untimely preparation of financial statements and reports
- incorrect or untimely provisions of transfer agency or record-keeping services
- conflicts of interest between the fund manager and the investors.

Response:

Yes, there are certainly cases where registration as a fund manager would not be necessary to address these risks.

Quantum Financial Service (Canada) Ltd. (QFS) is a Portfolio Manager in exchange contracts, and we have developed an exempt-market pooled product in a limited partnership format.

The General Partner of the partnership is a corporation that does not operate at arms-length from the PM. While a GP is commonly viewed as the business partner, and thus could be viewed as the entity requiring registration, in this case the GP exists primarily to take over the “unlimited” risk element from the limited partners. It does not receive any remuneration, and all of the administrative functions have been assigned to QFS, the PM, by a Management Agreement between the Partnership and QFS. It would be difficult for any kind of a business trigger to apply to this corporation.

We further believe that there are sound reasons for the proposed category not to apply to QFS either. In the case of this LP, the identified risks are mitigated by our existing registration as Portfolio Managers and oversight by the BCSC, and by the terms of the partnership itself.

- Incorrect or untimely calculation of net asset value: This pool is an illiquid investment that may only be redeemed annually. Timeliness of the calculation is a once-per-year concern that is easily addressed. Nevertheless, we do provide daily calculations and quarterly statements. The accuracy of these calculations can be verified by unitholders (i.e., partners), as they are given the right to inspect the Partnership’s books and records.
- Incorrect or untimely preparations of financial statements and reports: We are compelled by the Management Agreement and by the Canada Revenue Agency to provide financial statements (semi-annual and annual, respectively) on a timely basis. The accuracy of these statements is verified, presumably, by Revenue

Canada, and, again, unitholders have the right to personally inspect the books and records to ensure accuracy.

- Incorrect or untimely provisions of transfer agency or record-keeping services: Such provisions are clearly spelled out in the Management Agreement. All unitholders have received a copy of the agreement, and again, they are enabled to inspect the partnerships records at any time.
- Conflicts of interest between the fund manager and the investors: We are especially sensitive to this issue and have disclosed all conflicts to the unitholders by way of a Statement of Conflicts of Interest within the Subscription Agreement.

Finally, we stress once again that this is an exempt market offering, distributed solely to investors who are sophisticated and who have the ability to assess the benefits of any proposed investment, or to investors who are already in a relationship whereby they can assess the trustworthiness of the manager. We have close personal relationships with the unitholders and are not about to abuse their trust, as is the intent for such products.

Therefore, we believe that registration as a fund manager should not be required in this and similar cases.

In addition, QFS has a number of concerns surrounding the proposed requirement to become a member of the IDA:

The IDA is a national regulator for dealers in securities of all types. However, QFS operates exclusively in BC, and exclusively in exchange contracts. We currently only seek new clients in BC, and in fact prefer to deal primarily with local investors with whom we can maintain close personal contact. Joining a broad, national organization should not be necessary under a business model which is focused exclusively on a narrow segment of the local market.

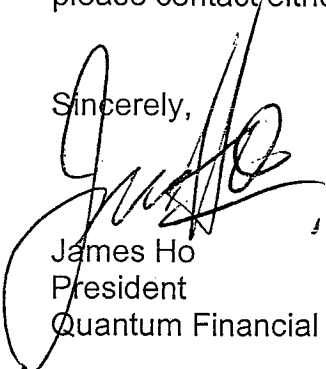
Being forced to join the IDA would be prohibitively expensive – much more so than should reasonably be necessary to regulate such a small niche in the market. In our case, the additional annual fees would represent a tripling of our recurring registration expenses, and a tripling in the capital requirements. Furthermore, the IDA's initiation fee of \$25,000 represents a cost of \$200 per client to a small firm such as ours. This is a tremendous burden which would have to be passed through to investors. Finally, transition costs to small firms, such as application preparation costs and additional audit expenses, would pose a large additional burden that could not be easily overcome. On the whole, it is doubtful that the transition could be made cost-effective.

Current regulation and oversight have been extremely effective. Exchange Contract Dealers operating in BC as Introducing Brokers to bona fide American Futures Commission Merchants have never, to our knowledge, caused investor losses due to business failure or fraud. This is due to the robustness of the Clearing Corporations, the current BC rules, and diligent oversight by the BCSC. This level of success cannot be improved upon by an additional level of regulation.

Forcing small niche dealers in British Columbia to join the IDA is regulatory overkill and tremendously costly, with no attendant benefits to investors or firms. Therefore, we propose that existing Exchange Contract Dealers which only operate in BC be given the option of opting-out of joining the IDA and thus remaining under the exclusive jurisdiction of the BCSC.

Thank you for your consideration of our comments. If you require any clarification, please contact either myself or Mr. Howard Lee at the above address.

Sincerely,



James Ho
President
Quantum Financial Service (Canada) Ltd.

CC: Anne-Marie Beaudoin – Directrice du Secretariat, Autorite des Marche Financiers
John Stevenson – Secretary, Ontario Securities Commission
Sandra Jakab – Acting Director, British Columbia Securities Commission