June 11, 2007

Mr. John Stevenson
Secretary
Ontario Securities Commission
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Proposed National Instrument 31-103 Registration Requirements – Request for Comments

Dear Mr. Stevenson,

Overview

As a small business person and entrepreneur, my basic expectation of government is to have government minimize its involvement in the marketplace and for government to minimize the frictional costs of doing business.

Due to developments in the Investment industry we can appreciate the basic necessity of government involvement to ensure that individual investors are protected. However, the investor is also responsible to ensure that an investment is made wisely in relation to the needs of the investor and the operation of the entity.

Given that the regulatory environment is purportedly shifting from a proscriptive regime to a more principle based regime, it is surprising the number of proscriptive requirements that are set out in the proposed instrument.

Our opinion of the registration requirements as proposed by 31-103 is completely contrary to this basic expectation of government involvement in the marketplace. The changes as proposed by 31-103, in addition to limiting the number of new entrants into the investment management business, will increase the frictional costs of doing business and increase the bureaucracy necessary to operate the industry and to operate individual businesses. These changes will be particularly onerous on existing small Investment Managers.

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In our experience clients prefer that their Managers spend more of their time and resources managing their portfolios, than managing their businesses (and employees) to meet unduly burdensome regulatory requirements.

My general concern is that the proposed changes are biased against existing small managers. They increase the barriers to entry for new entrants, and will reduce the existing number of Investment Managers due to additional financial requirements. This will keep many talented, creative young managers out of the business, as well as prevent employees at existing managers from opening their own businesses.

My specific concerns with the proposed 31-103 are in the following areas:

1) Changing the amount of working capital required
2) Changing the amount of financial institution insurance required
3) Increasing the amount of ongoing financial reporting required
4) The requirement to designate a Ultimately Responsible Person

Changing the amount of working capital required

By increasing the amount of working capital required to operate an Investment Management business:

1) There is no guarantee that Client's assets are better protected by this increased operational cost structure;

2) Existing small Investment Managers will have a higher working capital requirement thrust upon them with no outlet but to reduce costs in other areas of operation or to pass this higher cost on to clients;

3) There will be an increase in the barriers to entry – which in turn will limit competition, which in turn will benefit established managers and/or more expensive managers. Artificial barriers to entry are not good for consumers as a whole;

4) There will be no guarantee that the Creditors of Investment Management firms will have their debts satisfied in the event of insolvency.

5) There is no indication as to how the increased working capital requirement bears a relationship to the cost of winding up a firm. Many Investment Managers do not hold client assets but rather have discretion of client assets held at another registered entity and yet no relief has been provided from this added expense.

We wouldn't have a problem with an increase in working capital if there was a direct link to the protection of client's assets. However, just because someone can raise $25,000, $50,000 or $100,000 to sit in a bank account, doesn't guarantee that the client's assets will be better protected nor better managed. Our experience has shown that most Investment Managers have their own capital invested along side that of the client. To require the Investment Manager to segregate even more of their assets away from the investment side of the business to the regulatory side of the business hurts both the

Investment Manager and the clients. Consideration should be given to allowing the increased capital requirement (if indeed it does proceed) to allow the capital formula to include invested capital and / or segregated capital.

The general increase in working capital does not take into account the differences in the way Investment Management firms are structured or how they earn their fees. Many Investment Managers are very happy to be small. They have no intention to become large. As a result, many managers, keep their operations small, keep their costs down, and have prudent well-run businesses. Increasing working capital requirements would place an unnecessary burden on small Investment Managers.

Using our Company as an example our current working capital requirement is $25,000. However, because we manage Funds, our working capital will now increase to $100,000.

For the Funds we manage, the costs associated with running the Funds are borne directly by the Funds. These include Unitholder Recordkeeping, Fund Accounting, Audit, Administration, Custodian, Trustee and Legal. The only direct costs that our Company incurs to manage these Funds, are for our Portfolio Management System, regulatory registrations and filings and the audit of our company.

Like many other managers we communicate with, when we first started our business, we structured our personal financial affairs to meet the regulatory Working Capital requirements existing at the time. To change these requirements now would cause us to incur unnecessary costs.

To fund an increase in working capital we would have several options to raise an additional amount of money:

- Retain income in our business;
- Request a cash call from shareholders; or
- Loan the assets to the Company

Whichever way we funded the working capital increase we would end up with having $100,000 sitting in a low income earning asset. As a result we would exchange, in our opinion, an asset with large amount of long-term capital growth potential, for an interest bearing asset that would be subject to the erosion of its principal due to inflation. This costly substitution would be made so that we could satisfy a requirement that has, in our opinion, only a very low probability of ever being used.

***Suggestions*:**

- Grand-father existing Investment Managers to their current working capital requirements;
- Allow the Investment Managers to determine what their own working capital is required to prudently manage their own business;

- Have the Regulator consult with the Investment Managers to determine what their working capital should be to prudently manage their business;

- Determine a formula for working capital requirements that is based on the fixed cost structure of the Manager's business;

- Determine a formula for working capital based on the Manager's assets under management;

- Allow a manager to designate personal assets as a working capital back-up – this will reduce the Manager's necessity to incur an income tax liability unless absolutely necessary;

- Allow existing managers to phase in over several years any increase in working capital;

- Maintain working capital requirements at their current levels.

Financial Institution Bond

We view the Financial Institution Bonding requirement as being a pure frictional cost – a $ per year cost of doing business. The way we operate our business our belief is that there is a very low probability that we will ever make a claim against our Bond.

We have questioned our Insurance Agent about the frequency of claims against Financial Institution bonds. He has told us that he has never seen a claim made against a Bond.

The exclusions in the policies that we've seen make it seem that there are only very few situations that would require a claim to be paid out.

Having higher Financial Institution Bond requirements will again be an expense for smaller managers and keep many talented creative younger managers out of the marketplace – thereby creating a further bias toward larger institutions.

Suggestions

- Grandfather existing Managers to their existing Financial Institution Bond requirement;

- Eliminate the need for a Financial Institution Bond requirement altogether;

- Maintain existing Financial Institution Bond requirement levels;

- Disclose to Managers how many other Managers have made claims against their Financial Institution Bonds – so that Managers can see evidence that such claims are actually made and whether they were actually paid out against;

- Eliminate the need for a Financial Institution Bond if the owners of the business are involved on a day-to-day basis;

- Allow the Investment Managers to determine what their own risk is and required the IM to prudently manage their own business and hold an FI Bond to a level that meets this need;

- Have the Regulator consult with the Investment Managers to determine what their FI Bond requirement should be to prudently manage their business.

Filing quarterly financial statements for the Investment Fund Manager

This requirement is particularly onerous for smaller managers. Since these statements will be required to be presented in accordance with generally accepted accounting principles, the Financial Statements will require more extensive disclosures than most companies prepare on a monthly or quarterly basis. This requirement is time consuming and provides in my opinion very little value to Investment Managers, or more importantly their clients. Likely most firms will have to incur, unnecessary, costs to engage their professional accountants to prepare their quarterly financial statements.

The thirty day after quarter end filing requirement comes in a very busy administrative time period for managers. During the month after a quarter-end the Manager sends out quarterly reports to clients, they send out quarterly account statements to clients. Presumably regulators will have to increase staff levels to review all of the quarterly working capital calculations they will now be receiving. In turn this increased cost will be flowed down to the managers, who in turn will charge their Clients more money.

Suggestions:

- Develop a short form reporting financial statement that does not require full note disclosure unless there is a material change from the most recent audited financial statements;

- Allow managers to maintain quarterly financial statement in-house;

- Allow managers to file statements 45 or 60 days after quarter end;

- Have regulators introduce a more pro-active approach to dealing with Managers. Similar to KYC rules and communications, the regulators could contact managers on a more frequent casual basis. More frequent interactions will allow Regulators to find out more about Manager's businesses and their problems;

- Have regulators make random working capital calculation visits.

Appointment of an Ultimate Person Responsible.

When the owners of a business are active in the day-to-day operations of an Investment Management business with few employees; it is our opinion that the designation of an "Ultimate Person Responsible" is unnecessary. Many persons who will be the UDR are also the persons who are going to be the Chief Compliance Officer. Yet another hat for the Manager to wear with very little upside.

Suggestions

- For firms that are under a certain size in terms of the number of employees, and with active owners, and one office location eliminate the need for the appointment of an Ultimate Person Responsible;

- Have regulators communicate with the Chief Compliance officer on an informal basis throughout the year, asking to identify any problems that the CCO may have encountered, or what risks of fraud the CCO has identified as could occurring and what controls the CCO has put in place that they don't occur.

Conclusion

Certain of the proposed changes in proposed National Instrument 31-103 will add unnecessary financial, time and administrative burdens on existing, and particularly smaller, Investment Managers. The proposed changes will also create unnecessary barriers to entry for new managers.

There are a variety of alternatives that would be fairer to existing managers, reduce paperwork and create a vibrant industry that welcomes new entrants, and protects investors.

SINCERELY

Andrew Parkinson
Managing Director