T.I.P. WEALTH MANAGER INC.

Trust • Integrity • Performance

120 Adelaide Street West, Suite 2400, P.O. Box 23, Toronto, ON Canada M5H 1T1

June 17, 2007

To: Ontario Securities Commission

Re: Comments on the proposed NI 31-103 "Registration Requirements"

Attn: John Stevenson, Secretary

Dear Mr. Stevenson,

T.I.P. is a small investment manager currently registered as an Investment Counsel / Portfolio Manager ("IC/PM") and Limited Market Dealer ("LMD") with the Ontario Securities Commission (the "OSC"). At present, T.I.P. manages an in-house long-short equity hedge fund as well as providing sub-advisory service to third-party institutions. Our comments will be brief and focus on the perspective of a small, relatively new start-up investment manager mainly operates in the exempt market.

In general, T.I.P. welcomes CSA's effort to harmonize registration requirements across provinces and to streamline the application and registration process. This should serve to put managers and dealers on a more even footing in serving clients, eliminating some of more glaring inequalities brought about by non-registered money managers and the fact that only two provinces currently require registration for dealings in the exempt market.

However, when reading through the proposed instruments, one gets the distinct impression that this proposal was not designed with the prospective of smaller investment companies in mind. Rather, one could argue that on balance, this proposal seeks to make it much more difficult for new, small companies to start up and compete with established firms in servicing clients. Despite arguments to the contrary, NI 31-103 increases the regulatory burden on all registrants, which is disproportionably more onerus for smaller companies.

We will focus the discussion on the following issues directly affecting the operation and survival of our company below:

1. The distinction between "Portfolio Manager" and "Investment Fund Manager"

- **At Issue:** the introduction of the "Investment Fund Manager" category and the more stringent requirements on the latter.
- **T.I.P.'s Comments:**
  - Setting aside the issue that there is no clear definition of "investment fund", this seeks to place higher standards on managers of investment funds compared to managers of segregated accounts;
  - Aside from different ways of reporting to underlying clients, we view these two structures as equivalent in terms of the substance of managing client's money. The choice between them is

really only a matter of weighing upfront set up costs against ongoing ease of reporting and performance measurement. The same challenges in areas such as custodianship and asset valuation face managers in these two categories;

- There should be no presumption of relative size: some of the largest investment managers are almost exclusively focus on segregated accounts, while there are many funds that are tiny;
- From a practical point of view, if regulation favors one form of organization over another, then the reality will follow. Surely this is not the intent of NI 31-103. Substance should prevail over form.
- **Conclusion:** ***we question the higher standards being placed on investment fund managers versus portfolio managers.***

2. The introduction of "Exempt Market Dealer"

- **At Issue:** the introduction of the "Exempt Market Dealer" category nationwide in place of the current LMD system in two provinces only.
- **T.I.P.'s Comments:**
  - This would be a step in the right direction if all provinces implement the change. However, BCSC has indicated it may not join this effort, therefore giving BC-incorporated companies a distinct advantage. We consider this to have defeat the purpose of this requirement;
  - As portfolio managers we'd rather not be in the dealing business. However, because we offer only investment funds and not segregated accounts, we are deemed to be a dealer even though we do not market any securities other than our own funds and only in the exempt market. We believe there should be relief for managers in this situation;
  - **Conclusion:** ***we recommend the application of the "Exempt Market Dealer" category to be nationwide or it should not be implemented. We also recommend registration relief for portfolio managers who only deal in its own securities and only in the exempt market.***

3. S 4.14/4.16/4.17/4.18, Division 2: Solvency Requirements

- **At Issue:** the increased capital requirements for all registrants but particularly for "Investment Fund Manager".
- **T.I.P.'s Comments:**
  - As a background note, currently this requirement is $5,000 for managers who do not take possession of client assets, $25,000 for those who do;
  - The increase is 4 xs to 20xs the current standard!
  - The reality of the money management business is that it's highly labor intensive, but requires little working capital and generates good cash flow once a suffice scale is reached. It strikes us as strange that this requirement is not size-dependant and that dealers (who may engage in much more capital intensive dealings) actually put up less capital than investment fund manager;
  - In particular, this makes it even more difficult for proven investment managers to leave large institutions and start a new company. From our actual experience, we estimate the capital required in starting a new fund manager from the ground up:

	Current	NI 31-103	% Chg
Set up Legal Structure (OM/prospectus)	50,000 – 150,000	50,000 – 150,000	
Application to act as Trustee	1,500	1,500	
Set up Compliance Procedures	15,000 – 25,000	15,000 – 25,000	
Opening Audit and Regulatory	5,000	5,000	
Working Capital Requirement (minimum+ insurance deductible)	10,000	105,000	
Tangible Cost	**$126,500**	**$221,500**	**+75%**
Opportunity Cost (1 year without pay)	$200,000	$200,000	
Total Cost	$326,500	$421,500	

This is already a big undertaking for any individual – the new requirement just makes it a much bigger risk.

- This is relevant because consolidation has gradually concentrated the Canadian financial market and investors are having fewer and fewer choices in meaningfully differentiated products. There are a lot of small managers in the exempt markets but it suffers from a credibility problem as historically under-regulated and under-staffed. The movement of experienced institutional money managers into the smaller companies not only provides more competition, but also enhances the quality of portfolio management, level of compliance and the reputation of the exempt market managers. This is good for investors and should be encouraged, not the other way around;
- By the same token, the new requirement effectively quadruples the insurance coverage from $50,000 to a minimum of $200,000. The choice of this figure seems arbitrary: neither the $200,000 figure nor the 1% level is supported with any empirical evidence. In the end, all these incremental costs will either be passed on to investors or make small managers much less likely to survive.
- The unintended consequence of this requirement is to preserve the privilege of serving Canadian investors for the rich and established against the entrepreneurial and innovative. This should not be the case.
- **Conclusion: we recommend lowering the working capital requirement for investment fund managers to something much lower and something that truly reflects the operational needs of an investment company, rather than something arbitrary.**

4. S4.8/4.11, Division 1: Proficiency Requirements

- **At Issue:** the proficiency requirements for Chief Compliance Officer differ from categories
- **T.I.P.'s Comments:**
  - First of all, we believe S4.11 was intended to allowed a registered advising representative of a manager to be qualified CCO, but this is unclear from the wording as is;

- We are puzzled by S4.8 which sets out a different and higher standard for CCO in an Exempt Market Dealer than for any other categories. We are unsure if this is an intentional omission. If so, We'd like to understand why;
- If so, this will place undue hardship for a small manager like us who has limited human resources to draw from;
- We are also puzzled by the continued reference to Chartered Accountant in the requirement instead of a more inclusive reference for professional accounts including such reputable designations such as CMA and CGA. The days of monopoly on auditing rights by CAs is coming to an end in many jurisdictions and securities regulation should reflect that;
- **Conclusion: we question the differing standards for Chief Compliance Officer for different categories as well as the continued reference to a single type of professional accountants.**

5. S4.22/4.24, Division 3: Financial Records

- **At Issue:** Quarterly filling of financial statements and working capital calculation
- **T.I.P.'s Comments:**
  - It is not clear from the text that if these statements are required to be audited;
  - The frequency of this reporting imposes hardship for small managers and creates unnecessary costs for exempt investors
  - **Conclusion: we suggest a clarification that interim statements are not audited and lessen the frequency of this reporting to say semi-annually, or make exception for small managers in the exempt market.**

We appreciate your time and hope to have contributed positively to making the Canadian financial market a better place for all investors.

Sincerely,

(signed)

Jim Huang
President & Portfolio Manager