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Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorite des marches financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities,
Newfoundland and Labrador
Registrar of Securities, Northwest Territories
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Re: Response to National Instrument 31-103 Registration Requirements

Dear Sirs / Mesdames:

PFSL Investments Canada Ltd. ("PFSL") sincerely appreciates the opportunity to submit comments in response to the Canadian Securities Administrator's ("CSA") proposed National Instrument 31-103. Our company is a subsidiary of Citigroup Inc., one of the largest financial services companies in the world with over $1 trillion in assets and some 200 million customer accounts in over 100 countries. PFSL is part of the Primerica Financial Services group of companies that have served middle-income investors in Canada since 1986 and has one of the largest mutual fund-licensed sales forces in Canada

with approximately 5,000 licensed mutual fund representatives. Other market participants often overlook middle-income investors, as serving those with smaller accounts is becoming less and less economical with increasing regulatory obligations (and related costs), on top of general cost increases. It is with a perspective enriched by our many years of experience working with individual investors with smaller accounts, the very group that mutual funds were designed to serve, that we submit our response to the CSA regarding National Instrument 31-103 Registration Requirements ("NI 31-103").

PFSL believes that through NI 31-103 the CSA has taken a significant step toward eliminating the current patchwork of registration requirements and improving Canada's securities industry. We believe that establishing a single, national system of registration will improve industry efficiency, standardize requirements and accepted practices for firms operating nationally, and ultimately benefit investors. Nevertheless, the following areas are ones that we believe would benefit from further clarification or revision.

General

It would be beneficial to expand the Definitions sections as some terms have not been defined and therefore make them subject to different interpretations. We also found that there is inconsistent use of certain terms as well as section numbers between the Instrument and the Companion piece. "Adviser" is such a term and appears to be used in relation to different positions in different parts of the Instrument. "Investment Fund Manager" is another such term.

A. Investment Fund Manager

The term "Investment Fund Manager" is listed and referred to in the Instrument and Companion piece in a manner that would indicate that it is one of the categories under which a firm could be registered. However, the "Investment Fund Manager" category is absent from Part 2 of the Instrument and therefore not listed among the categories of registration.

B. Dealer Categories

We do not see a public policy rationale as to why the regulations in section 2.1 of the Instrument restrict the activities of mutual fund dealers to such an extent. We strongly feel that this is contrary to the described graduated licensing and proficiency regime. Despite being a strictly regulated category of registration, with appropriate proficiency, insurance and capital requirements, mutual fund dealers under the proposed Rules would only be allowed to deal in mutual funds. Prohibiting mutual fund dealers from dealing in less complicated products such as GICs and scholarship plans seems excessive and only works to limit access and choice that mutual fund customers have.

C. Proficiency Requirements

We recommend that the proficiency requirements set out in Division 1 of Part 4 be amended to allow for a modular approach to proficiency for dealers and advisors. For example, an additional course or courses could be taken to allow mutual fund advisors to sell exempt market products. This would give investors better access to investment

products and provide them with more choice in the market while at the same time ensuring that competency standards are met.

D. SRO Exemptions

Companies that are currently SRO members will be exempt from many aspects of the proposed Instrument and will be expected to continue their compliance with their SRO's regulations. However, it is possible that an SRO's regulatory jurisdiction is not as extensive as that of the proposed Instrument and that it does not necessarily cover all aspects of a particular company's business practices. For example, the MFDA's jurisdiction is limited to "dealers" even though elements of an MFDA member's operation may fall outside of "dealing". The Instrument lists sections that are limited to non-SRO members in application, but it is unclear as to whether or not these sections will apply to SRO members whose activities go beyond their SRO's scope of jurisdiction.

E. "Dealing" vs. "Advising"

Clear and consistent definitions regarding what constitutes "dealing" and what constitutes "advising" would be beneficial. Although a degree of overlap may exist between the activities of a dealer and those of an advisor, having a clear understanding of exactly what each entails would assist in ensuring proper registration and full compliance under the proposed Instrument since a number of regulations that apply to advisors do not apply to dealers.

F. "Outsourced" Responsibilities

In addition to being a mutual fund dealer, PFSL is the manager of a proprietary mutual fund, which is one of many mutual fund families sold by the dealer. Based on our understanding of the Instrument, PFSL operates and acts as a "Portfolio Manager" for the proprietary mutual fund. PFSL has a contractual relationship with outside companies that we use as advising firms for this fund. It is not clear whether the Instrument allows for these important relationships.

G. Chief Compliance Officer Proficiency

While the Instrument states that the designation requirements are similar to those of the IDA, OSC and AMF, the qualifications outlined are extremely prescriptive. We recommend that at a minimum 4.11 sub-clause (a) should end with "or" as sub-clause (b) does. It is excessive to require firms to locate lawyers or CA's who have been employed as advising representatives for portfolio manager, have an additional three years experience working for a registered dealer or advisor, and who have also passed the other professional exams listed in 4.11(b) (ii). There are many chief compliance officers in the industry who have long been considered acceptable and capable by the CSA and SROs. They will also significantly limit the number of individuals who would qualify for such roles and therefore create cost and hiring pressures which may not be reasonable to overcome for many firms. At a minimum, grandfathering provisions are required.

H. Insurance – Advisor & Fund Manager

We suggest that any insurance requirements not be overly prescriptive, as availability depends on market forces and can change significantly over time.

Further clarification for sections 4.17 and 4.18 would be helpful. Since "investment fund manager" is not listed as a registration category it is not clear to which types of organizations these insurance requirements apply.

I. "Know-your-client"

"Know-your-client" (KYC) requirements listed in section 5.3 would benefit from further detail and explanation. The section lacks clarity regarding the extent, degree and level of information a registrant is expected to gather. Since it is the responsibility of the registrant to determine the identity of the client and whether the client is an insider of a reporting issuer, some direction in terms what would constitute sufficient information and reasonable investigation would be appreciated.

Perhaps most concerning with section 5.3 are the requirements stipulated in subsection (1)(a). The onus placed on a representative to establish "the reputation of the client" seems excessive. There are currently no guidelines regarding the reasonable steps a registrant would have to take in order to establish a potential client's "reputation". Beyond the practical problems of establishing "reputation", the Rule fails to establish what, if any, action is to be taken as a consequence of this information being gathered. We submit that the current requirements to scrub clients against the OSFI list as part of the AML/ATF regulations as well as the new OSFI Rules pertaining to Politically Exposed Persons should be adopted and accepted as sufficient safeguards.

In addition, it may be possible to interpret mutual fund dealers and advisors as insiders when purchasing mutual funds from their own firm/issuer. Presumably this is not an issue assuming the purchases are made at standard market term and conditions.

J. Relationship Disclosure

Additional clarification would also be beneficial regarding certain parts of the Relationship Disclosure Document ("RDD") (Part 5 Division 2). The language used in this part of the Rule raises a certain amount of confusion regarding exactly when the relationship between a client and registrant begins. The Rule stipulates that the client is to be provided the RDD *before* he or she even receives advice. Since such disclosure generally occurs at account opening, 5.10(1) appears to establish new expectations regarding the timing of disclosure. The use of the term "advises" seems to be the key trigger for determining when the relationship between a registrant and client begins. We recommend that clearer language be used to define the trigger since there is a varying range of activity that may be interpreted as "advising". Clients expect to be given guidance, which we would consider advice, before purchasing, holding or selling a security. However, the term "advise" could also be construed to include informal discussions that are not intended to be investment recommendations, for example. It is crucial for clients to receive adequate information regarding the nature of their relations with registrants, but it is also important to adequately define the moment that such a relationship becomes a formal engagement.

Further, in requiring the RDD, the Rule does not adequately address the differences between existing clients (such as those opening an additional account) and new clients. Since existing clients would already have been informed of the nature of their relationships with registrants, providing them with another RDD would be repetitive and unnecessary.

Section 5.12(2) may result in duplication. The RDD contains general information regarding the firm, products and services, risk, investment objectives, conflicts of interest, the advisor and the like. Conversely, information collected under section 5.3 ("know-your-client") is specific to a particular client. Due to the different nature of this information, it would need to be updated for different reasons and at different times. Requiring registrants to include the KYC information in the RDD would result in clients repeatedly and unnecessarily receiving general information regarding their relationship with the registrant. Providing KYC documentation and the RDD separately would benefit both the client and registrant in terms of cost, time and efficiency.

Finally, consideration should be given to how the Joint Forum's Point of Sale Disclosure proposal can be coordinated with the RDD in order to eliminate the duplication of information and disclosures.

K. Records

Further clarification would be useful for certain subsections of 5.19(2). Subsection (k) requires firms to demonstrate compliance with client account opening requirements but it is unclear if the intention of the Rule is to have clients attest to the receipt of the RDD. Such a requirement has not been included in section 5.12 on RDD content requirements.

Requiring all correspondence between clients and representatives to be kept within the firm is excessive and onerous (5.19 (2)(l)). The relationship between clients and representatives can be complex and seldom limited to strictly formal, professional communication. We suggest adding the phrase "on securities related matters" to "correspondence with clients" to provide clearer guidance on the correspondence to be retained.

L. Trade Confirmation

Section 5.21(1) states that the requirements to send confirmations are for registered dealers; it is not clear whether this requirement applies to fund managers. In the case of client-name mutual fund accounts, fund companies send trade confirmations, and thus sending confirmations from dealers for such accounts would be duplicative and cost prohibitive. This would be a significant cost burden for dealers servicing smaller middle-market accounts.

It would be appropriate to include "withholding taxes" as a transaction disclosure category as opposed to bundling it with "other charges" as this is not a "charge" but a tax. Subsection (c) would also be more appropriately worded as "any other amount *deducted*" as opposed to the current "any other amount charged".

M. Account & Portfolio Statements

Requiring dealers to provide a statement of account at least once every three months (Section 5.25) is a costly and quite possibly duplicative obligation, given that many fund companies also provide such statements. Consideration should be given to whether providing this information every three months is of sufficient value to clients as compared to the high costs of printing and mailing, particularly as many of the investments are long-term holdings for retirement which should not require frequent monitoring. In addition, the information is often available on line, and on demand, from fund company websites.

The proposal would result in another dealer cost that would adversely impact the economics of serving the middle-market investor. PFSL accepts deposits as low as $25 a month, allowing even those with a low disposable income the opportunity to participate in the mutual fund market and start on a retirement savings plan. These proposed additional costs might make servicing such accounts uneconomical, further restricting access to the market.

Whether or not more frequent statement delivery becomes part of the final Rule, permitting an online system (in place of frequent mailing of paper statements) that enables clients to access their account information on demand would reduce printing and mailing costs.

N. Dispute Resolution

Section 5.30 establishes that registered firms are to participate in a dispute resolution service without providing further information regarding the nature, methodology or quality of these services. Currently SRO members participate in the OBSI and we believe that this sufficiently addresses the requirements set out under this section. We recommend that companies that are following SRO guidelines and rules on dispute resolution should be exempt from this section. Further, client complaints as referred to under this section should be limited to complaints regarding regulatory matters. Other complaints, such as those regarding service and/or fund performance, should be regarded as customer service complaints and referred to firms for resolution and only escalated to the OBSI in the event that the complaint is not resolved.

O. Conflict Management

Having registered firms identify potential and actual conflicts of interest as expressed in 6.1(1) is an appropriate requirement, however additional examples through the supplementary materials would prove useful to industry. In addition, section 6.1(3) seems to require a separate, written disclosure regarding conflicts of interest that would already have been disclosed through the RDD and proposed Joint Forum Point-of-Sale disclosures. This appears to be repetitive and unnecessary.

P. Suspension of SRO Approval

The Instrument (Section 7.3) allows for a single firm to have multiple registrations. Due to the wording of this section, it is not clear as to whether the suspension of a firm's SRO membership would result in the suspension of any or all of the firm's other registrations.

As an example, PFSL will be registered as a fund manager in addition to its dealer registration. It would have significant negative and likely unnecessary ramifications should the suspension of one registration automatically result in the suspension of the other registration**.**

Q. Information Sharing

Section 8.1 requires firms to disclose to another registered firm "*all* information in its possession or which it is aware that is relevant to" an agent's conduct. Disclosing this information could be considered objectionable by an agent and result in legal action against the firm. Further, the proposal could violate Privacy laws. We believe that simply requiring firms to confirm whether a representative is in good standing would fulfill the intent of section 8.1. In the event that a representative is not in good standing, the MFDA already has the right to access the information pertaining to a representative's actions and reputation.

R. Financial Records

Part 4, division 3 of the Instrument provides for a number of financial record keeping and disclosure requirements. We submit that those firms that keep such records due to SRO memberships should be exempt from these requirements. Further, the requirements under this division should be consistent with SRO rules in order to ensure consistent financial record keeping and disclosing practices across the industry.

S. Branch Manager Requirements

We support the proposed Rule's non-prescriptive approach to the branch manager requirements as this allows sufficient flexibility for different business models while ensuring adequate supervision requirements are in place. We strongly believe that the emphasis should be kept on standards of supervision and not on prescriptive approaches to supervision.

PFSL appreciates the opportunity to provide comments to the CSA regarding NI 31-103 and the consultations that have taken place to date. We look forward to being part of a meaningful dialogue between the CSA and industry to ensure that the interests of Canada's middle-market and small individual investors are protected.

Yours truly,

John A. Adams, CA
Chief Executive Officer