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British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés 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
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

c/o John Stevenson
Secretary
Ontario Securities Commission
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RE: Comments on NI 31 -103
From Legacy Associates Inc

As a mid sized Mutual Fund Dealer, we would like to make comments on a number of areas related to the proposed rule, the Registration Reform Project. We support the concept of uniform and harmonized rules and commend the CSA for their efforts in this direction.

Comments by Section

Dealer Registration Categories NI 31-103 Section 2

We are concerned about the requirements for Mutual Fund Dealers to register for multiple categories and have concerns about what the cost and fee structure would be for multiple registrations. The rules do not indicate what the fees would be and if Mutual Fund Dealers who are also registering in the new Exempt Market Dealer category would be required to pay additional fees. We would like to have more information on the proposed fee structure for the multiple category registration process.

The registration regime should recognize the higher level of oversight that SRO Membership brings and, accordingly, MFDA members should be permitted to sell exempt products without the additional requirement to register as Exempt Market Dealers.

The Mutual Fund Dealers who are registered to sell exempt products should be permitted to determine which of their registered sales representatives should be permitted to sell the exempt products they choose to sell and ensure that the applicable sales representatives have the appropriate proficiency specifically required to sell each corresponding exempt product (we recommend a modular approach to proficiency).

We are concerned that by mandating the same proficiency for Exempt Market Dealers as Investment Dealers, all MFDs wishing to sell exempt products are being pushed into the IDA business model. The high level of proficiency to sell all exempt products, regardless of their risk, may deter MFDs from selling less risky exempt products (such as GICs and other government issued instruments). This would decrease public access to the wide range of investment products currently sold by MFDs.

Currently, there is no definition of “exempt product”. It is important that a harmonized definition be adopted nationally before registration in this proposed category is required. Accordingly, the various provincial *Securities Act* definitions will need to be amended once a clear list of “exempt products” is arrived at, developed with industry participation.

Proficiency for individuals should be consistent with this function and must be tailored to the particular product being distributed. Given the nature of a mutual fund and the advanced proficiency required to distribute mutual funds - the ability to distribute exempt securities should be permitted as part of the MFD registration, since it should be assumed that this proficiency is a sub-set of the ability to distribute mutual funds. Where the exempt product is of a high risk nature, then the salesperson would be required to have the appropriate proficiency (equivalent to the CSC course), where the risk is lower, such as a GIC, the proficiency would then be the same as the mutual fund requirement already in place for selling mutual funds.

In respect to the registration categories, we further suggest that there be;

- adequate transition periods.
- grandfathering of proficiency requirements where appropriate.
- a modular, product-specific approach to proficiency that does not assume that the Canadian Securities Exam is the only proficiency assessment tool.

Section 3.3 Rules for various sections can be different for firms that are members of an SRO, versus those firms that are not members of an SRO. We disagree with this in general and feel that the rules should be the same and that customers deserve to receive the same consistent regulation. If there are firms that are not members of an SRO, then they should be subject to similar rules that the SRO firms must adhere to. If a dealer is registered for multiple categories (i.e. Mutual Fund and Exempt Market) they should not have two sets of rules.

Section 4 Reporting and Financial Requirements for Non-SRO MFDs and Exempt Market Dealers

We seek further clarification regarding the requirements for this section, particularly 4.16 2) and 4.22. If a Mutual fund Dealer who is a member of the MFDA is also required to register as an Exempt Market Dealer, what will they need to do in terms of these sections? It has been stated that if they are a member of an SRO they will not be required to report as per this section, as they report to the SRO (higher reporting requirements). If that same dealer is also required to register as an Exempt Market Dealer, and there is no SRO for Exempt Market Dealers, then will the Dealer have to report to their SRO PLUS also do additional reports for the CSA securities commissions for the Exempt Market Dealer category?

Our concern is the additional cost and duplication and the confusion regarding what would or would not be required. If Mutual Fund Dealers who are members of an SRO (MFDA) were not required to register as an Exempt Market Dealer, but allowed to sell Exempt Products under their MFD category (subject to proficiency requirements as stated above for section 2), then the additional reporting requirements would not be needed as the MFD would report to the MFDA.

We have a particular concern with section 4.16 2) for the Insurance coverage under the FIB to have a double aggregate limit or automatic re-instatement clause. The rule will not apply for the mutual fund dealer registration, but would apply for the Exempt Market Dealer registration, and for a small dealer this is already an expensive requirement, where we often pay a minimum required premium for the coverage and have to take a $1,000,000 policy as the insurance companies won't sell us a lower limit (or it would be the same premium anyway, so we get the higher limit). The requirement for coverage is only $200,000, so why penalize a dealer who has 5 times the requirement, because to add the double or automatic re-instatement of policy limits would add additional insurance costs for the small dealers.

Proficiency Requirements NI31-103 Section 4.7
Just a comment regarding wording of a section…

For Exempt Market Dealers

Appears to be missing something it should be showing as

4.7 a) OR b) OR c)

Currently it does not show anything from a) to b) therefore it reads as

4.7 a) AND b) OR c)

As section 4.7 b) is the USA equivalent to the Canadian CSC course it does not make sense that we would have to take the USA course to do business in Canadian exempt products.

NI 31 – 103 Section 5.3 1) c) iii) and Section 5.4 1)

These sections refer to activities related to doing discretionary trades for clients, BUT MFDA Dealers and their Representatives can not do discretionary trading for clients, so why is there reference to it.   Wording appears to be for only mutual fund dealers but includes IDA parameters, or if for all dealers, it should clarify portions that only apply to IDA firms.

Leveraged Loan NI31-103 Section 5.6 1)

There is a reference to the dealer and Representatives having to exercise reasonable diligence in finding out if the money from the client is borrowed money (i.e. came from an investment loan or a line of credit etc).   What is the standard that dealers will be held to and what is reasonable diligence?   What one dealer thinks it reasonable may not be the same as what other dealers consider to be reasonable, and this could present a problem for deficiencies during audits when regulators look at what dealers are doing.

Record Keeping NI 31-103 Section 5.20 4)

This states that firms (dealers) must keep records for 7 years from clients that cease to be clients of the dealer.

This creates some problems for dealers due to the different models used by dealers and goes into an area of the question about who owns the client file. Many dealers are run so that the file is the firm's file and if a client leaves the file can be stored and set aside for 7 years and then destroyed. So for those firms, it is not a problem.   There are many other dealers who have a different model and the firm does not own the client file and it is the Representative who owns the client files, so if the Representative is with the firm and a client leaves it is not a problem and the file is stored for 7 years. If the Representative leaves the firm and goes to another dealer, we now have a major problem as the NI 31-103 states the firm must keep the records for 7 years after the client ceases to be a client of the firm, but the Representative says he owns the file and takes it with him, leaving the firm with nothing and in contravention of the rule. The firm would have to force the Representative to give them the file as the business arrangement and contract with the Representative was a contract that says the clients and the client file are the Representative's not the firms.

The rule needs to be re-visited to take into consideration the different business models at dealer firms and a solution found to accomplish what is needed by regulators.

Client Stmts NI 31-103 Section 5.25 1)

This adds a requirement to send quarterly statements of accounts to clients. This quadruples the cost for dealers in respect to mailing out client statements. For many clients who have little or no activity on their accounts this seems excessive, especially for smaller clients with low assets. If a client only has a few thousand dollars in an RRSP and may have a small PAC or make a small RRSP contribution in Feb each year, then why would they need 4 statements per year? What about the client that only has a small LIRA account and does nothing for years, just holds the account, because they can not access the money, why do they need four statements per year? What is the purpose of this rule? The small retail client is being squeezed out of the advice market already, because of the costs of doing business, to then make the dealer send that client 4 stmts per year will just slam the lid shut on them getting an advisor to work with them. They will be pushed into the call centre bank market and will be the ones that pay the fees to the bank to cover the high cost of doing business. This is NOT in the best interests of the consumer and the requirement for statements needs to be related to the type and size of the account.

Is there or will there be the ability to have client statements delivered by electronic means?? If a dealer can provide proof of the client opening the electronic client statement (i.e. sent by e-mail), will that be acceptable to regulators? This could be an alternative to the high cost of mailing statements. If clients have electronic access to their statements and portfolio on line, do they need to have a quarterly statement sent to them?? Clients have more and more access to the statements and holdings on line and if there is confirmation that the client has checked their statement on line, at least once each quarter could those clients be exempt from having to have a statement mailed to them??

The requirement for a client statement from the dealer, which ONLY shows the dealer accounts, is confusing to clients, as they may also have GIC products or intermediary accounts, with other products. When they receive a statement with only some of their holdings, they may think something is wrong and it causes unnecessary concerns. The client statement should be a complete portfolio of the client holdings, and it can include disclaimers or explanations as to who is regulating what. Whether it is GIC holdings, mutual funds, seg funds or intermediary accounts, if the client has their investments with the representative, then it should be a client statement for everything from that rep and there can be an explanation to say the mutual funds are regulated by the MFDA and the seg funds are regulated by the superintendent of insurance and the GIC products are subject to this or that, and the MFDA Investor Protection Plan only covers nominee accounts and excludes client name accounts etc.

Complaints NI 31-103 Section 5.30

This section states that firms MUST participate in a dispute resolution service to handle all client complaints and must be done within a certain period of time. Is this for all dealers or just non SRO dealers?? If just for non SRO dealers, does it apply for an MFDA Dealer who also registers as an Exempt Market Dealer for the Exempt Market Dealer Activities? What about a situation where the client complaint involves both a mutual fund product and an exempt product, would part of the complaint go to the dispute resolution service and part be under the SRO complaint handling process?

Which service is the rule referring to (OBSI or an outside provider?), is the dispute resolution service provider’s decision binding, or is there an appeal process and what sort of costs are involved?

There does not appear to be an option to work things out at the dealer level first and seems to be a rule that all complaints must be handled by sending them to a dispute resolution service. This is not something that should be a rule or requirement, we do not think it should be mandated, but should only be one possible path that could be chosen for a complaint.

Sharing Representative information between firms NI 31-103 Section 8.1 1), 2) and 3)

These sections require firms to share information with other firms regarding a Representative that has left the dealer and is seeking registration through a new dealer. So if the new dealer contacts the previous dealer the rules states information MUST be provided.

This goes into the area of privacy protection and legal liability issues that most firms would be uncomfortable with. A firm already is required to report information to regulators (thru NRD filing of the termination and reporting to the SRO) and if a new dealer needs to check on a Representative's situation they should be able to check with the MFDA to find out if there is some issue or cause for concern. If a Representative attempts to sign up with a new dealer and is refused and now finds they can not obtain employment because of something the previous dealer has said to the new dealer, what protection does the previous dealer have when they are sued by the Representative? A dealer may terminate a Representative because of something and then later that Representative may be cleared at a hearing and if they could not get employment because the previous dealer told new dealers about the things the rep did, the previous dealer could be open to a lawsuit.

What if the previous dealer does not say anything about the rep, and then the new dealer signs that rep up only to run into the same problem and there are losses and there are damages. So the new dealer then sues the previous dealer for not complying and saying what the rep was like. It is a lose – lose situation for dealers.

Client Relationship Disclosure Document

In broad and general terms the concept of providing the client with this document is a positive move and will make things better. Having something that sets out clearly the relationship and services offered will only make things better. It is a great idea to have a clear allocation of responsibilities, to disclose information that is understandable and meaningful, and to manage any conflicts. Clarity is a noble pursuit. We must remember, as has been made clear many times over the years, that investor education is important, BUT what a client learns cannot be made the subject of an enforceable requirement, because a Representative can not MAKE a client LEARN!

In an attempt to make the process perfect NI 31-103 has made the requirements for the RDD so overwhelming that they destroy the basic concept of meaningful and understandable disclosure. In trying to be comprehensive, complete and in plain language the RDD has become an all encompassing document that is not workable. It attempts to put everything into a package to be completed at the initial meeting with the client, and include everything a Representative previous did with their client over a lengthy period of time.

There would not be enough hours in the day to properly go through all of the information set out as being required RDD material. It would take several hours over which time any meaningful and understandable information would be lost on the consumer.

There is a vague reference to OTHER information or material which does not give a realistic picture of what the account opening process includes. There are numerous privacy and consent requirements that must be included and disclosed to clients at the time of opening a new account. The privacy protection policies and documents will add another one or two pages to the documentation. There are numerous consent issues that need to be addressed and the client needs to have information about the use of documentation and file information and must provide consent for such use (information sharing and family file consent to mention a couple of items), so this adds another page or two to the documentation.

The MFDA proposed RDD sample is 6 pages of single spaced typed suggested wording, and several sections just make reference to other items or wording that is to be included. Those items may be anywhere from a few sentences to several pages. Then there is the issue of presentation and giving the client 10 pages or more of single spaced typed wordings is not practical. In order to make the document of any use the spacing and layout will expand the RDD into either a large booklet or a 6 to 10 page basic document with multiple additional page inserts or handouts. The risk of course, with using additional inserts or handouts is that some Representatives may forget or miss some of those additional pages and then some clients will not get everything. Then there is the issue of client's misplacing some of the inserts and then later saying they did not get them at all. So for dealers the only way to protect themselves is to have everything in one package or booklet and then there is no question that it was all presented. Such a booklet may run into the 20 to25 page size and that is too much for a first meeting.

The requirements of the RDD are noble but attempting to force them into play at the initial meeting before the Representative does any business with the client will not work. It will be glossed over and become meaningless instead of meaningful. The RDD requirements should be there but not forced into one document package for the initial meeting. The client relationship is built and develops over time and is not a one time initial meeting event. The account opening process is just that, a process, it is not a single point in time. The account opening process is just part of the on going client relationship that is built over time and encompasses several meetings that develop the relationship and builds client knowledge of the relationship and services provided.

If we were to look at the best practices in the industry and see what the best Representative's do with clients and their processes we would find that they already do all and more of what the RDD requirements set out. It may not be done in the first meeting or the first few meetings, but it is done over time and clients know exactly what the relationship is, what services are provided, who will do what and when. The information that the Representative provides may come from a variety of sources, the simplified prospectus, client profile questionnaires, and other documents. There is clear allocation of responsibilities, not only the Representative's but his firm's, his associates and staff's as well as the client's responsibilities. There is full disclosure of everything, including fees and costs and reporting of statements and confirmations etc and it is all in an understandable and meaningful format. Any and all conflicts are dealt with in the best interests of the client (which may be more than just disclosure of the conflict). These best practices are followed by the true professionals in the industry, not because a regulator has said they have to do it, but because they know it is the right way to do it and while it is more costly it reduces problems and eliminates risks of doing business and builds a more profitable book of business in the long run.

More work needs to be done to come up with a solution that is acceptable to the regulators and is workable in the real world of dealing with consumers. It can be done and with industry consultation we can implement a relationship disclosure process that works.

We support and agree with the need to make changes to the regulations and while the proposed reforms are a move in the right direction, there is still more work to do. We hope that along with our comments and comments from others, that the CSA can make changes to the proposals that will accomplish their goals and will allow the industry to implement and manage the cost of the changes. The proposed rules with a number of amendments, changes or clarifications can be made into a workable solution for the industry. We look forward to the next few months and the continued opportunities for the regulators and industry participants to work together to make registration reform a reality.

Yours truly,

Robert G Malcolm
Chief Operating Officer
Legacy Associates Inc

Registration Reform Project NI 31-103

> Question #1: What issues or concerns, if any, would your firm have with the proposed fit and proper and conduct requirements for exempt market dealers? Please explain and provide examples where appropriate.

Reply Q#1: We do not have any issue with the fit and proper requirements and agree with the proposals. We are concerned about the transition period and would suggest that Representatives be given ample time to meet the standards. During that time period client should be allowed to hold the investments that they currently have but restrict the Representative to no new trades or switches without the prior review and approval of a qualified person within the firm. If at the end of the transition period the person does not meet the standards the firm would be required to move those accounts to a Representative who does meet the requirements (or the client could redeem the investment).

> Question #2: 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 an 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).

Reply Q#2: We disagree with any jurisdiction opting out of harmonizing with the other CSA jurisdictions. We do not see any difference in BC versus any other province or territory and BC should implement the same categories, and we do not see how BC would suffer any damage to the venture raising capital business. A strong and healthy economy will continue to attract individuals and venture raising capital business will continue.

> Question #3: 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.

Reply Q# 3: No comment

> Question #4: Registration of the UDP and CCO is proposed. As well, we propose that the UDP be the senior officer in charge of the activity carried on by a firm that requires the firm to register. What issues or concerns, if any, would your firm have with these registration requirements? Do you think the registration of the UDP and CCO contributes to or detracts from a firm wide culture of compliance? Please explain.

Reply Q# 4: We do not have an issue with the proposal and feel it will be of benefit in larger firms. As a small dealer we do not have a problem with the compliance culture and with a small head office with direct and continual access to the board members we keep compliance at the forefront of the operation of the dealership. We believe the UDP and CCO positions will benefit larger firms where operational concerns can be greater and compliance can be lost in the day to day operations of a firm.

We do have a concern with the aspect of making the UDP and CCO absolutely liable for every aspect of the compliance program and that it appears to make everything black and white, either the firm is compliant or it is not compliant. There must be recognition of the work and efforts of the UDP and CCO, where they have done all that they can do to make the firm compliant, and that liability must be placed upon the individuals who fail to operate in a compliant manner and fail to make sufficient efforts to do so.

Question #5: The Rule proposes an associate advising representative category for portfolio managers but not for restricted portfolio managers because the restricted portfolio manager category is intended for individuals who have expertise in a specific industry. Is the concept of an associate advising representative useful in the context of a restricted portfolio manager? If so, why?

Reply Q# 5: No comment.

Question #6: We discussed but have not proposed registration of senior executives and directors (i.e. the mind and management) of a firm. Registration would assist the regulators in being able to deal directly with this group of people rather than indirectly through the firm. Please provide us with comments on what positions in a firm should be considered part of the mind and management and what issues or concerns you or your firm would have with registration of individuals in those positions.

Reply Q# 6: As a small dealer our Senior Executive is also our compliance officer and will be the UDP and CCO and reports directly to shareholders and the board of directors and communicates with the board on a regular basis and is already required to register (compliance officer). If larger firms must appoint a UDP and that person is the CEO (or equivalent) than we do not see the point in also making other senior officers (President, COO, CFO Executive VP, etc) also register. The regulators have enough authority to regulate firms and if there is a problem dealing with a firm and a lack of co-operation or in the conduct of the firm's senior management, then the regulator can suspend the firm and has the authority to do so now. A requirement for other senior executives to be registered will not make things any easier or better, so why do it.

Question #7: The proposed exemption applies to advisers who are actively advising and managing their clients' fully-managed accounts. The exemption has not been extended to advisers dealing in securities of their own pooled funds with third parties. If there are circumstances in which you think it would be appropriate to extend the exemption to third parties please describe.

Reply Q# 7: No comment.

Question #8: The Rule requires dealers, advisers and fund managers to have Financial Institution Bonds. In cases where the owners of the firm also carry out the operations and registerable activity of the firm, usually in small firms, are these bonds prohibitively costly to obtain and will the bonds provide coverage if they are obtained in these situations?

Reply Q# 8: These FIB bonds are very costly to small firms, and as a percentage of revenue it is a very high cost, with small firms often being subject to paying a min premium. In some cases insurance companies may not be willing to provide coverage, but if that is the case the question has to be should this business be allowed to continue. If an insurance company feels that the risk is too high to insure or that they need x thousands of dollars to cover the risk, then that may indicate that there is sufficient risk to clients and therefore the firm must obtain the coverage at whatever the cost or not be in business. A large dealer may pay a high premium, but it may represent only a fraction of 1% of their total revenue, while a small dealer may pay a lower premium or a minimum premium, but it may be 5% to 10% of that dealer's revenue.

The bonds are a necessary part of operating a business and whether the firm is small or large the coverage is needed for the protection of clients. A well run and compliance focused small firm can negotiate better terms and premiums in a competitive market. If the industry as a whole experiences more problems and claims, then the insurance market tightens and it is difficult for smaller firms to obtain reasonable terms and premiums. If the industry is more compliant and works at doing things right, then the risk drops and the insurance market is more open and coverage is not as expensive or difficult to obtain.

Question #9: We propose that some requirements of Division 1 not apply to clients that are accredited investors as defined in NI 45-106 *Prospectus and Registration Exemptions*. Is it appropriate to exclude this group, or any other group, of clients from the account opening requirements?

Reply Q# 9: We do not agree with the accredited investor (or any other groups) exemptions, and feel that everyone should be the same in terms of account opening requirements. Just because a person meets the so called accredited investor requirements does not mean they are smarter or know more about investing. They may be able to afford to lose some of their money, but they are still in need of the same requirements to know the same things about the relationship, the responsibilities and the services provided. They still need to have information disclosed to them and to provide consent for providing and sharing information.

> Question #10 What issues or concerns, if any, would your firm have with the proposed relationship disclosure requirements? Is this type of requirement appropriate for some or all types of accredited investors? If so, what information would be useful to have in the relationship disclosure document?

Reply Q #10: In general we agree with the concept of setting out the relationship and services in something like the Relationship Disclosure Document (RDD), but have some grave concerns about the format and extent of the proposed RDD. We understand the importance of investor education and also with transparency and full disclosure. We also do not believe that what a client learns can be made the subject of an enforceable requirement. A Representative can not make a client learn!

It is our belief that the proposed requirements for the RDD are a noble goal and that clarity, transparency, and the provision of meaningful and understandable information is fundamental to the industry. The problem we see is in matching the concept with the realities of doing business, and that the proposal for the RDD is based on the account opening being viewed as a single event or a point in time. The whole concept of the RDD will not work if formulated to be a single event or a point in time. The account opening process in the real world is a process it is not a single meeting. The information is provided over a period of time, the relationship develops over a period of time, and the requirements of the proposed RDD are met over a period of time. The RDD requirements can not be provided to the client in one dose, like a flu shot, and any attempt to force a client to digest such a meaty block of information all at once will fail. The client will be overwhelmed and after a while their eyes will gloss over and roll into the back of their heads, then the Representative will be faced with a blank stare and in most cases the client will either walk away, or they will just say stop where do I sign and let's be done with this.

We also see a change in the vehicle for the provision of the information from the simplified prospectus to the RDD. We see regulators recognizing that the simplified prospectus was too much information and was not therefore doing what it was intended. Unfortunately much of what is now being required for the RDD was formerly in the simplified prospectus, and it is making the RDD so lengthy that it is going to be just as bad as the simplified prospectus was. So on one hand regulators see and understand information overload and work to change that, but then end up putting it right back somewhere else.

The proposed RDD can not be instituted as a single event and needs to be incorporated as part of the new account opening process, and will be provided to the client as parts of the overall and multi meeting account opening. Gone are the days when a Representative would meet with a client and leave the first meeting with a buy or transfer in hand. The reality of the business now is that the Representative meets several times with the client and portions of the RDD would be done at each meeting progressing to the point where an account is opened and a buy is processed or a transfer document is sent in. We as dealers can make it work and can improve the process, but it has to be recognized as a process not a single event.

In terms of accredited investors they require the same process and should be subject to the same standards, if they are more knowledgeable and sophisticated then their meetings will be shorter and take less detailed explanations. It would not change their need to participate in the process, it may only make the process easier to complete.

The information provided in the RDD as proposed is similar to the best practices in the financial services industry, and the typical CFP financial planner already meets or exceeds the requirements of the proposed RDD. Many of the best and top mutual fund sales people follow similar best practices, because they know it makes for better satisfied clients and builds a better business for them (more profitable and less problems). So for the professionals the top 20% in the industry, the requirements of the RDD is not a problem themselves, but they too would have trouble implementing the RDD in their practice. They do it over time as a process and they too would not be able to accomplish it as a single event.

It is fine to put in regulations to hold people to the best practices in the industry, but it must be in a practical manner that is workable and doable! If you look at the process followed by the best Representatives in the business and study it and flow chart the new account process you would see that it is a map of the requirements of the proposed RDD, but it is done over a period of time. It involves several hours of meetings and consultations so that the investor can comprehend and understand. We can not support the proposed RDD as the provision of information as a one time single event, but we do support the concept of the proposed requirements when implemented as part of a process of opening an account.

Question #11: Is the prescribed content for a confirmation the appropriate type of information?

Reply Q# 11: The investor wants to know what he invested in and when it was invested, and if there is too much clutter and additional information the client will end up not getting anything useful from the confirmation. While it appears good to provide some of these items of information, we have to be careful that we do not bury the important part of the confirmation. The confirmation should be easy to read and highlight what the basic trade information is and while some additional information may be of use it should not detract from the basic trade information. Anything that reduces unnecessary reporting is of value, and semi annual reporting of regular PAC's or SWP's would be of worth to all parties.

Question #12: The Rule requires a registered firm to identify and deal with all conflicts. Would a materiality concept be appropriate within the requirement or should that be dealt with at the firm level within the firm's policies?

Reply Q # 12: We believe that there must be high standards when it comes to conflicts of interest and the best interests of the client must be the first priority. Firms must deal with conflicts and clients must be aware of the conflicts, so the firm must address the conflict appropriately. Disclosure is not always enough; firms may need to do more. We feel that many clients do not understand some of the conflicts of interest and firms are not making it clear for investors. The sale of in-house products is one area of conflict that as a small independent dealer, we feel is not being addressed by many firms. Clients are being directed into some in-house investments at larger firms and they are not aware of the conflict and are not advised as to the conflict. The conflict of interest issue can be dealt with at the firm level, but must be governed by the highest standards and regulations.

> Question #13: Is our description of the risks of referral arrangements complete and accurate? If not, what is missing?

Reply Q# 13: Referrals have been a cloudy area and between these reforms and work by SRO's the issue of referrals is less murky than it was. There needs to be a good control on referrals and firms need to stay on top of the situation to prevent problems.

> Question #14: One objective of NI 45-106 was to have all exemptions in one instrument. As mentioned, we have included the registration exemptions in the Rule for purposes of obtaining comments on the exemptions that are being proposed under a business trigger. Would you prefer the registration exemptions remain in NI 45-106 or be moved into the Rule?

> Reply Q # 14: It does not matter, it is just as difficult to navigate around different national instruments as it is to follow the amendments and changes to those instruments, but having all exemptions in one instrument would be a good as having them with the rules.

> Question #15: Is 120 days sufficient to allow registrants with existing referral arrangements to comply with the Rule? If not, what length of time is sufficient? Please explain.

Reply Q# 15: In most cases 120 days should be sufficient, but when correcting matters or changing to comply with new rules, and especially when it may involve several different parties to the agreement 120 days can be a difficult target to meet. With many other changes also ongoing in our industry and the rigors of day to day business to deal with 120 may not be sufficient for all cases. 180 days may be more reasonable as a transition period, or 120 with an extension for 60 days if a firm has a case for such an extension (and subject to a fee of a reasonable amount, such as to make it unattractive as an alternative but available if really needed).

> Question #16: A matter not dealt with in the Rule but one which relates to registrants and NRD is the annual fee payment date. Comments have been made by some industry participants that a December 31 fee payment date is problematic and that a May 31 fee payment date would be better. Please comment on whether a May 31 or December 31 annual fee payment date is better for your firm.

Reply Q# 16: We agree that the Dec 31 date is somewhat problematic and May 31 would be a better date. Our corporate year end is Dec 31 and as we are a cost centre not a profit center we charge our Representatives for their registration fees and their share of the dealer registration fees and as the amount is substantial and is withdrawn the first business day of the next year it always creates accounting problems and sorting out the money in and out in Dec and Jan.

Yours truly,

Robert G. Malcolm
Chief Operating Officer
Legacy Associates Inc