June 20, 2007

HIGHSTREET
ASSET MANAGEMENT INC.

To:

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marches financiers
New Brunswick Securities Commission
Registrar of Securities Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland & Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

C/o John Stevenson, Secretary, Ontario Securities Commission
jstevenson@osc.gov.on.ca
Anne-Marie Beaudoin, Directrice du secretariat
Consultation-en-cours@lautorite.qc.ca

Re: Proposed National Instrument 31-103 Registration Requirements

Highstreet Asset Management ("Highstreet") commends CSA for taking on such a large and important task and we appreciate the opportunity to comment on the proposed instrument.

Highstreet is registered as an IC/PM or equivalent in all jurisdictions. We provide discretionary advisory services to pension plans and other institutional investors and we provide sub-advisory services to third party funds. We serve high net worth clients through pooled funds that are advised by Highstreet and one sub-adviser. We distribute these pooled fund units under the exemptions available in NI 45-106 except in Ontario where we are registered as a Limited Market Dealer.

We will address some of the specific questions in the Notice and Request for Comment as and if they pose concerns for Highstreet and we will then provide comments on the rule that have not been addressed in the Notice and Request for Comment.

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

The proficiency requirements recommended in the proposed Rule for an individual registered as a dealing representative of an Exempt Market Dealer, in addition to the Canadian Securities Exam, include the Conduct and Practices Handbook Exam or the Partners, Directors and Senior Officers Exam.

Highstreet agrees with the CSA that proficiency requirements for this registration category are important however exempt marketplaces cover such a broad range of investments, it is difficult to comment on specific proficiencies for this registration category that are relevant to all exempt distributions and the varying nature of the client /dealer relationship that exist in exempt marketplaces.

Highstreet currently uses a Limited Market Dealer license in Ontario to distribute units of pooled funds. The proficiencies we exercise in making these distributions to private clients, charitable organizations and smaller pension clients are more closely aligned with the Financial Management Advisor designation or a similar course. Our accounts for these entities are not fully managed but as part of our KYC and suitability obligations we exercise proficiencies that allow us to speak to our clients about investment horizon, risk profile of the client vs. the investment fund and diversification. These proficiencies are perhaps very different from those that would be used by an exempt dealer who only sold syndicated mortgages.

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.

In some firms the investment fund manager role and the dealer role are integrated with the provision of advice. The three functional areas of dealer, fund manager and fund adviser that the CSA has identified as requiring separate registration are led by the same 'directing minds' and are much more interconnected than the registration categories would imply. If a company exists to provide investment advice, the means and activities undertaken to provide such advice are at once integral and incidental to the primary purpose. The calculation of a NAV and the preparation of fund financial statements reflect the integrity of the adviser's management. If regulators directly regulate an adviser and an adviser undertakes certain further activities to distribute advice, it adds little value to regulate these further activities under a separate license.

We ask the CSA to reconsider the necessity of a new category of fund manager for advisers that have this function fully integrated into their operations ("an integrated company").

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 in 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.

Highstreet would like the exemption from dealer registration to apply to non-discretionary accounts that are managed in-house by the advising firm.

As stated earlier, if the primary purpose of a firm is to perform the role of money manager and the firm has decided to provide such management to certain clients through a fund structure then the adviser's registration should provide access for the regulators in order to regulate the client relationship activity.

Regardless of whether the client account is 'fully managed' or 'client directed', the adviser or dealer is bound by the conduct rules in Part 5 of the Rule.

Comments on Division 2: Solvency Requirements

Capital Requirement – minimum
The minimum capital requirement for dealers and investment fund managers should be no higher than the current capital requirement for advisers of $5,000 net free capital plus the deductible from the FIB bond. The proposed increase in FIB requirements will necessitate higher deductibles on those policies and this will provide a mechanism to increase capital requirements.

Our comment on the new higher requirements of capital is that a new firm will fail not because it cannot manage its business but because it cannot meet the proposed capital requirements. We appreciate the CSA's decision not to make the excess working capital requirement cumulative.

Capital Requirement – calculation
The capital requirement is calculated by adjusting the value of securities owned by a registrant for market risk. Market risk as defined in Form 31-301F1 Calculation of Excess Working Capital is the application of IDA margin rules to securities owned by the registrant. Margin is a device to protect dealers who provide leverage to clients from market risk but also from investors with varying risk tolerances.

Many companies provide seed capital to pooled funds that allow the fund to establish a track record for performance and attract investors based on the merit of the mandate. Applying margin calculations to seed capital in the capital calculation will create a barrier to an adviser's ability to launch new products. The recent adoption of 3855 accounting standard requires all securities held to trade to be fair valued (marked to market) and therefore the market impact is immediately reflected in the capital requirement and margin requirements should not be necessary.

Additionally, IDA margin rules do not address private placements such as pooled funds. Highstreet invests excess capital in the Highstreet Money Market Fund, a pooled fund that has comparable market risk as a money market fund issued under a prospectus. We ask that if margin rules continue to apply to the capital calculation, the Rule permits margin on pooled fund units to be calculated in the same manner as comparable units of a similar fund issued under a prospectus.

It is Highstreet's position that the levels of capital and the method of calculation currently required by the adviser license are sufficient to reflect the 'going concern' nature of a registrant, regardless of their registration category(ies).

Insurance Requirements
In a purely advisory relationship that exists between an adviser and, for example, a pension plan where an advisor's access to a client's account is limited to trading in a custody account opened by the client, the risks covered in an FIB bond are not reflective of the risks involved in this advising activity. The Rule recognizes the reduced risk of this activity in 4.17(1) by requiring a fixed Financial Institutional Bond (FIB) of $50,000 for advisers who do not have access to client funds.

If an adviser manages money through a fund and is the manager of the fund, then the adviser is potentially more exposed to risks A through E of a FIB. The proposed Rule requires that an Investment Fund Manager calculate the required FIB as a percentage of 'assets under management'. It is not clear that this calculation should only apply to assets that are under management by the fund manager. While the distinction between 'fund assets' and 'advisory only' assets are addressed by an integrated firm on a management basis, this distinction is generally not made at any other level. It is our opinion that the FIB bond should only apply to assets where the adviser/manager handles the assets and not to a firm's total 'assets under management'.

Our recommendation is that the CSA consider the following:

Investment Fund Manager FIB insurance requirements should be restricted to those assets managed in a fund where funds are handled (subscriptions and redemptions are processed) or the manager has access to client funds to collect fees etc.

The amount of FIB insurance required by the Investment Fund Manager category is out of proportion to the risk. The existing adviser's minimum limit of $200,000 and any amount as approved by the board of directors is sufficient.

Part 4 - Division 3: Financial records
Highstreet proposes that the quarterly financial statement reporting requirements for the Dealer under 4. 22(2)(a) and Investment Fund Manager under 4.24 (2)(a) be limited to a balance sheet and an income statement. These reports are commonly produced for management purposes and should provide sufficient information to give a regulator whatever disclosure they might require.

In an integrated company these financial statements will also capture financial activity generated from advisory and dealing activity. We ask for confirmation from the CSA that financial reporting on a consolidated entity basis will still meet the requirements of the regulator.

The annual financial statements for an integrated company will potentially cover all three registration categories. It is our opinion that there is little to be gained by filing the same financial statements three times.

We ask the CSA to consider language that would allow a company that has 2 or more registration categories to file audited financial statements once on behalf of all registrations.

Part 8 – Information Sharing
As an employer, we register our advising and trading employees with the regulator. As an employer we have ongoing obligations to provide the regulator with information that is relevant to the individual's registration requirements. If there is information that needs to be disclosed about 'the person's suitability as a registered individual' then as an employer we should disclose that with the regulator and not with another registered firm. The employee/employer relationship is private and we should not be asked to disclose that information to anyone but the regulator if and as required.

The requirement to share private or personal information about former employees with third parties presents certain risks for registrants. The Rule should provide some form of legal protection for firms who put themselves at risk of litigation in complying with the Rule. It is our belief that the CSA has a role to play here as well. If the regulator has information about a registrant's conduct that could influence a prospective employer's decision to hire, they too should have a duty to share that information.

We thank the CSA for this opportunity to comment and look forward to a continuing dialogue concerning registration reform.

Yours truly,

Paul A. Brisson
President