DAN HALLETT
& ASSOCIATES INC.

June 20, 2007

VIA ELECTRONIC MAIL

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RE: Proposed National Instrument 31-103 (Registration Reform)

Dear Mr. Stevenson and Ms. Beaudoin:

I am pleased to have the opportunity to comment on proposed National Instrument 31-103 on Registration Reform. Dan Hallett and Associates Inc. ("DH&A") is licensed in the province of Ontario in the category of Investment Counsel. DH&A provides investment research to financial advisors, consulting services to dealers, and manager search, selection and oversight services to brokerage firms in support of their managed money platforms. For retail investors, DH&A also provides investment advice to Ontario residents on a fee-for-service basis.

A stated goal of NI 31-103 is to, "*…create a flexible and administratively efficient regime with reduced regulatory burden*". While I am in agreement with these stated goals, I believe that many of the proposed provisions are largely inconsistent with these objectives.

What follows are my comments on some specific provisions of the above-referenced proposed national instrument.

Section 4.14 – Capital Requirement

Requiring a firm to maintain minimum working capital only makes sense when the registrant controls or is in possession of client funds. For registrants, like DH&A, that neither control nor take custody of client assets, this section serves only to stifle consumer-friendly competition in favour of the larger registrants. This measure would directly raise the regulatory burden, which directly conflicts with one of the instrument's stated key objectives.

If a registrant holds no client assets, no client money is at risk of loss due to fraud or operational failure of the registrant. Hence, I fail to see the purpose of raising the cost of doing business without commensurate consumer benefits. This measure, if implemented as proposed, will either reduce competition by squeezing out smaller operations or increase costs to consumers as smaller firms raise their fees to offset increased regulatory costs. Neither scenario is consistent with the instrument's statement objectives.

Section 4.17 – Insurance (adviser)

Requiring a firm to obtain insurance or bonding when it neither handles nor controls client assets does nothing to protect investors. In fact, doing so will only serve to raise the annual operating costs and the minimum capital requirement with no improvement in investor protection.

In Appendix A of this proposed national instrument, substantially all of the *Financial Institution Bond Clauses* do not apply to a registrant that neither holds nor controls client assets. Again, for firms like DH&A that don't put clients at risk – because we neither handle nor control client assets – this does nothing to protect investors and does everything to increase legal and regulatory costs. And, it potentially removes from the market a consumer-friendly option that is already so scarce.

Section 5.12 – Content of relationship disclosure document

The nature of the information suggested to be included in the Relationship Disclosure Document is problematic on a number of fronts. For instance, paragraph (d) under this section would require, "*a discussion that identifies which products or services offered by the registered firm will meet the client's investment objectives and how they will do so*".

I fail to see the value in such a disclosure as the output will amount to a mini-commercial for the firm's services. If viewed from the client's perspective – i.e. the information or insight that is absent that this disclosure will provide to the client – I cannot see the benefit. This is important since providing investors with unnecessary information reduces the likelihood that they will actually read that information that is important and relevant.

Paragraph (e) under this section would require, "*…if the registered firm is an adviser, a discussion of investment risk factors and types of risks that should be considered by the client when deciding to invest using an adviser*". Paragraph (f) continues, "*…a discussion of investment risk factors and types of risks that should be considered by the client when making an investment decision*".

Paragraphs (e) and (f) appear destined to replicate many of the risk disclosures already found in mutual fund prospectuses. While this may not be the CSA's intent, fear of litigation will effectively result in mutual fund prospectus-like risk disclosure, in my opinion. Consistent with my comments of paragraph (d), this will simply serve to overwhelm clients with information that may not apply to them draw attention away from more salient data.

Perhaps the provisions in this section should be integrated with the Proposed Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds recently put forward by the Joint Forum of Financial Market Regulators. Duplication of disclosure information is not consumer friendly.

As someone who has worked with individual clients for more than a dozen years and spent a decade doing product research, I urge you to consider that more disclosure does not necessarily result in improved disclosure[1].

8.1 – Firms' obligation to share information

Notwithstanding whether this section conflicts, in part or in whole, with PIPEDA[2], I fundamentally disagree with legislating the disclosure of an individual's personal information between registered firms where such disclosure has not been approved, in advance, by the individual in question.

[1] For more on this statement, please see the following April 9, 2006 article on the impact of NI 81-106 http://www.danhallett.com/articles/04092006.shtml

[2] The Personal Information Protection and Electronic Documents Act came into effect on January 1, 2004

Division 2 – Mobility exemptions

My preference would be to have a single national securities regulator like the rest of the developed world. Failing that, a passport model certainly makes sense. After all, why does an Ontario investor need "protection" from a registrant in B.C.? She doesn't; so we must break down the barriers within our small country to strive for a regulatory environment that fosters efficiency while still protecting the investor population.

10.1 – Exemption

I agree with the regulators' power to grant an exemption from any part of this proposed national instrument. It is my hope, however, that regulators will take into consideration exemptions previously granted as valid, and not subject registrants to the direct and indirect costs of having to re-apply for exemptions already granted.

In short, I wholeheartedly support any effort to create a flexible, efficient, and less burdensome regulatory regime. And I thank you for your effort to this end. But for the reasons noted herein, I do not think that Proposed National Instrument 31-103 can achieve those objectives.

Thank you for the opportunity to be heard and I would be pleased to further discuss with you any of these (or other related) issues.

Sincerely,

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