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John Stevenson,
Secretary,
Ontario Securities Commission

Re: Response to Request for Comments - Proposed N. I. 31-103

Regulation of the securities industry is a balance between protecting the investing public and avoiding unnecessary restriction on industry participants. I commend the CSA in its attempts to achieve this balance by calling for, and considering, comment from the industry before enacting NI 31-103.

One area that caught my eye where I feel some modification is needed in order to achieve that balance is the capital requirements for advisers and the purpose of this submission is to request a reconsideration of that item.

The CSA has stated that one of the purposes of registration is:
"Financial Solvency - registered persons must be financially viable"

Participants in the various categories of registration have very different characteristics to their businesses. It follows that "financial viability" is different from one category of registrant to another.

Yet the CSA, in proposed Form 31-105F1 *Calculation of Excess Working Capital* has essentially adopted a 'one size fits all' approach by prescribing the same calculation methods to all registrants via 31-105F1. The only acknowledgment of the substantial differences among the types of business requiring registration is a different number prescribed for the minimum amount of excess working capital.

Probably the most significant difference among registrant types from the point of view protection of the investing public is that some registrants have direct liabilities to clients –usually on demand– and some don't. Yet "financial viability" is calculated the same way for both.

Hitherto, the law relied on generally accepted accounting principles ("GAAP") to measure working capital and, by extension, financial viability. If the CSA wishes to deviate from that approach –which 31-105F1 does– the CSA has a duty to justify not only to the regulated but to the public, its rationale for doing so.

For example, what possible justification is there in the case of a portfolio manager who does not handle client funds –presently known in Ontario as an IC/PM– for a requirement to exclude prepaid expenses from current assets? Did the CSA think that if the IC/PM pays next month's office rent a day or two before the end of the month that it is less financially viable than if it had waited till after the month end? It seems clear that the CSA had in mind only registrants with amounts owing to clients payable on demand when it designed proposed Form 31-105F1

The CSA should justify publicly, for each category of registrant, where GAAP doesn't quite do the job. It owes that to the regulated.

Yours truly,

Robert M Inness