

Optimal Models and Decisions Inc.

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Via Email

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

Delivered to:

John Stevenson
Secretary
Ontario Securities Commission
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Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
Tour de la Bourse, 800, square Victoria
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consultations-en-cours@lauthorite.qc.ca

Dear Sir/Mesdames:

Re: Proposed National Instrument 31-103 Registration Requirements, Companion Policy and Related Forms Published for Comment on February 27, 2007

We are pleased to provide the members of the Canadian securities administrators (CSA) with comments on the above-noted proposed instruments (Proposed Rule, the Proposed Policy and collectively, the Proposals).

Optimal Models and Decisions Inc. (Optimal Models) is an Investment Counselor, Portfolio Manager and Commodity Trading Manager, registered in the province of Ontario.

We welcome the increased proficiency scrutiny and compliance requirements, however, believe that the proposed increased capital and insurance requirements is an economic burden on portfolio managers and does little to improve the integrity of portfolio managers. These increased requirements effectively act as barriers to entry and raise the economic break-even bar for new Portfolio Managers, reducing investment innovation, investor choice and marketplace competitiveness. We ask that the CSA consider setting Portfolio Manager capital and insurance requirements on a two-tier system, graduated by either number of clients or by assets under management. This will effectively allow new entrants seeking registration in the category of a Portfolio Manager to achieve minimum critical mass before being subjected to higher regulatory economic burden.

Focusing on the increased insurance requirements, we submit that Optimal Models has adopted a business policy not to take custody of client assets. All of our client assets reside with third party custodians, prime brokers, administrators or futures commission merchants (third party custodians). Optimal Models is authorized to direct trading activity in its client accounts, but it can not affect client asset movement. In this case, the responsibility for assuring safety of client assets lies with the third party custodians and not with the Portfolio Manager. We submit to the CSA that the Proposed Rule has not appropriately distinguished between those market participants that take custody of client assets and those that do not. In the later case, we believe that the risk of client asset misuse, fraud and/or theft is greatly reduced. We ask the CSA to recognize the reduced risk profile of those Portfolio Managers that do not take possession of client funds and exempt them from the requirement to carry financial fidelity insurance. If the insurance requirement remains while the Portfolio Manager does not take possession of client assets, who exactly is the insurance protecting?

We observe that under the Proposals, in the event that Optimal Models formed, managed, advised and sold an investment vehicle where client funds were pooled, our firm would be required to register as a Portfolio Manager, Investment Fund Manager and Exempt Market Dealer. We submit that the triple registration is onerous and duplicative without achieving the desired increase in market integrity. We ask the CSA to consider that once a firm is registered as a Portfolio Manager, that this firm is already registered and regulated, and having meet proficiency requirements for Portfolio Manager, it is well qualified to be an Investment Fund Manager and a sales agent for the pooled investment vehicle managed by it, and should be exempted from the proposed Investment Fund Manager and Exempt Market Dealer registration requirements.

Yours truly,

Max Reydman, CFA
President
Optimal Models and Decisions Inc.