



June 20, 2007

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
20 Queen Street West
19th Floor, Box 55
Toronto, ON M5H 3S8
jstevenson@osc.gov.on.ca

Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
Tour de la Bourse, 800, square Victoria
C.P. 246, 22e étage
Montréal, Québec H4Z 1G3
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 (collectively, the "Proposals") and would like to thank the CSA for providing us with the opportunity to comment on the Proposals.

A handwritten signature in blue ink, appearing to be "M.M.W.", is located on the right side of the page.

KnowledgeSuites operates an incubator for start-up hedge funds called the Hedge Fund Hotel, Toronto. Our objective is to help the hedge fund industry grow in Canada in a well regulated, fully compliant way and to assist individual funds to be set-up in accordance with the highest international standards of good governance.

Business Trigger

International standards for licensing of market participants in the securities industry are almost universally based on the carrying of “securities business” – we therefore applaud the move to a business trigger in Canada.

Duplication

Under the Proposals a start-up hedge fund manager will be required to be registered as an Investment Fund Manager, a Portfolio Manager and an Exempted Market Dealer. Although the capital adequacy requirements are not tripled, the effort and registration fees are. In the USA a start-up hedge fund manager is not required to be registered with the SEC at all. In the USA there are over 3,000 hedge funds with approximately US\$1 trillion of assets under management. Here in Canada we currently have less than 300 hedge funds and less than CDN\$100 billion under management. Perhaps the two points are related.

We submit that it is absurd to require a start-up hedge fund manager to have three separate registrations.

The international standard is for registration categories to be cascading, with activities that are consequential to one form of registrable activity being covered by the registration for that activity. So for example, a person registered as an Investment Fund Manager should be entitled to carry on portfolio management in respect of its own funds and distribute the securities of its own funds – without the need for additional, purely duplicative registrations in other categories.

Chief Compliance Officer

In a start-up hedge fund the founder is likely to be the CEO, the portfolio manager, the trader, the UDP and now – the CCO - all in one. This does not make much sense.

Surely there are better standards of investor protection if such a fund manager is able to outsource functions to independent third-parties.

Just as the best hedge funds outside Canada now use independent, third-party prime brokers, independent, third-party fund administrators and independent, third-party auditors, Canadian hedge fund managers should be able to outsource the compliance function to an independent, professional compliance service. This would ensure that at least two pairs of eyes review trades, etc.

The requirement for a CCO to have passed either the CSE or PDO is overkill if the person is a qualified lawyer, accountant of CFA, with several years of securities industry experience.

Registration of Third-party Service Providers

In recent years it has become standard practice for the main hedge fund jurisdictions to require the registration of third-party service providers, such as hedge fund administrators.

As mentioned above, investor protections are enhanced where fund managers outsource key functions to professional service firms that are suitably regulated. A hedge fund manager who appoints an independent, regulated, third-party administrator to handle all client monies is not able to buy 3 million dollars worth of diamonds with client money and flee the country. On the other hand, a hedge fund manager who has an Investment Manager Registration, a Portfolio Manager Registration, an Exempt Market Dealer registration, and who meets all capital adequacy and insurance requirements, and who is the UDP and the CCO of his or her firm, can still buy 3 million dollars worth of diamonds with client money and flee the country. In other words, the triple registration and fit and proper requirements are onerous and duplicative without achieving the desired increase in market integrity.

Insurance and Capital Adequacy

The proposed minimum capital and insurance requirements are too onerous for a start up hedge fund manager.

These increased requirements effectively act as a barrier to entry and raise the economic break-even point for a new hedge fund manager, reducing investment innovation, investor's choices 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 portfolio managers to achieve minimum critical mass before being subjected to these proposed higher regulatory burdens.

In particular, the differences between an Investment Fund Manager and a Dealer - from the perspective of investor protection - are not properly reflected in the minimum capital required for each activity. \$100,000 is way too high and will simply be a barrier to entry for new manager's rather than an effective investor protection measure for hedge fund investors. As set out above, investor's are far better protected if the investment fund manager is required to carry on its business in an appropriate way, rather than by simply imposing additional financial constraints on the manager.

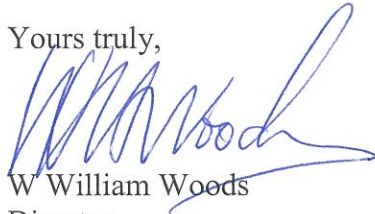


We submit to the CSA that the Proposals have not appropriately distinguished between those market participants that take custody of client monies and those that do not. In the later case, we believe that the risk of client asset misuse, fraud and/or theft is greatly reduced. We ask the CSA to recognize the reduced risk profile of those portfolio managers that do not take possession of client monies and exempt them from, or reduce significantly, the requirements for minimum capital and financial fidelity insurance.

Additional Input

Please do not hesitate to contact us if you would like any further input on the Proposals.

Yours truly,

A handwritten signature in blue ink, appearing to read 'W Woods', with a long horizontal flourish extending to the right.

W William Woods
Director