



May 29, 2008

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

To: Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
Tour de la Bourse
800, square Victoria
C.P. 246, 222 étage
Montreal, Québec H4Z 1G3

And To: John Stevenson
Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8

Dear Sirs/Mesdames:

**Re: Arrow Hedge Partners Inc.'s comments on
Proposed National Instrument 31-103 Registration Requirements**

We wish to take this opportunity to provide our comments on the proposed National Instrument 31-103. Arrow Hedge Partners Inc. has also collaborated with the Canadian chapter of the Alternative Investment Management Association in the preparation of their comment letter and we are in full support of their comments but would like to stress our concerns on the two sections noted below.

Excess Working Capital Calculation - Section 4.18 of Instrument, Section 4.7 of Companion Policy

Line 9 of Form 33-103F1 - Calculation of Excess Working Capital requires a deduction for the market risk of securities owned by a registered firm, in accordance with various rules. As the Instrument is currently drafted, an investment fund manager that invests in its own investment funds not offered under a prospectus (e.g. hedge funds) would face a 100% deduction in respect of such securities. We believe that this is unfairly punitive and runs counter to industry and competitive pressures that exist today. In the alternative

investment industry it is a competitive reality that investors, particularly institutional investors, expect an investment fund manager to have invested a significant portion of its resources (as well as the personal wealth of its owners) in any investment fund(s) that it manages, as it aligns the interest of the investment fund manager with the investors in the investment fund(s). Investment fund managers may also temporarily invest excess cash in their funds, or will create pools to test new strategies before they are offered to investors. The calculation as drafted would penalize such activity by the registered firm, with the potential result that the investment fund manager is forced to place such funds in cash, money market funds etc. This potentially prevents the investment fund manager from developing new products for Canadian investors or earning higher returns on its investments.

We note that mutual funds qualified by prospectus only produce a 50% deduction, although in many cases these mutual funds can be invested in the exact same instruments and would have the same liquidity issues in satisfying redemptions as a pooled fund sold by way of offering memorandum. We submit that such a disparity, solely on the basis of how the fund is offered, is not warranted.

As outlined in section 4.7 of the Companion Policy, we understand that the intent of the section is “to ensure a registered firm can meet the demands of its counterparties and, if necessary, wind down its business in an orderly fashion without loss to its clients.” Accordingly, an asset can be considered to assist in meeting working capital needs if it is reasonably liquid and the ability to realize on the asset is under the control of the registered firm.

To meet this requirement we propose that an investment in a pooled fund held by an investment manager be weighted at 50%, consistent with mutual funds offered by prospectus, of market value if:

- a) The investment is in a fund managed by the investment fund manager; and
- b) There are no restrictions, e.g. lockups, on the ability of the investment fund manager to redeem its investment; and
- c) Such investment can be redeemed or sold within a time period no longer than two months from the date the redemption notice is given. This allows for situations where a fund is valued monthly and a 30 day notice period is required.

Any other type of investments, particularly in funds not managed by the investment fund manager, would be weighted at 100% of market value.

Holding Client Assets in Trust – Section 5.10(2) of Instrument

Section 5.10(2) of the Instrument requires registered firms to hold cash on behalf of clients in a designated trust account with a Canadian financial institution or a Schedule III bank. Many registrants in both the alternative investment industry and the traditional investment industry operate their businesses using a prime broker that acts as a custodian

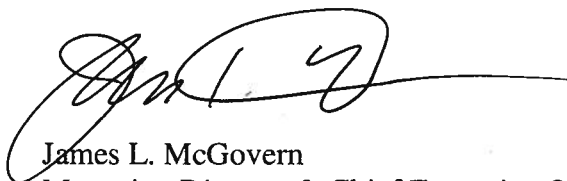
of securities and also holds cash. Examples of these prime brokers are TD Securities and Scotia Capital in Canada and Goldman Sachs, Morgan Stanley and Bank of America outside of Canada. For alternative investment vehicles that utilize short positions and/or leverage, cash must generally be held with the prime broker as security. It would not be possible for these prime brokers to sweep excess cash on a nightly basis to a bank account with a Canadian financial institution, even for those prime brokers that are subsidiaries of a Canadian financial institution, as the necessary systems are not in place. Section 5.10(2) does not reflect the realities of Canadian capital markets and is not feasible for many market participants.

We note that Section 6.8 of National Instrument 81-103 - *Mutual Funds* explicitly excepts from the otherwise applicable requirement that assets of a mutual fund governed thereby be held by a permitted custodian or sub-custodian, assets deposited with a dealer as margin for certain derivative transactions or with the counterparty on specified derivative transactions.

We also note that this issue was brought to your attention during the initial comment period and the response was that it would be addressed on a case by case basis. We feel that there would be an extraordinarily large number of registered firms that would be unable to meet the requirements of this section and that the volume of exemptions being requested would be a strain on the resources of the regulators, or a uniform exemption will be required as contemplated in the response.

We appreciate the opportunity to provide the CSA with our views on NI 31-103. Please feel free to direct any questions or comments that you might have to the undersigned.

Yours truly,



James L. McGovern
Managing Director & Chief Executive Officer



Robert Maxwell
Managing Director, Risk Management & CFO