# STONEGATE

Private Counsel

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
Superintendent of Securities, Yukon Territory
Registrar of Securities, Nunavut

September 30, 2010

Dear Sirs/Mesdames:

**Re:** Request for Comments

Proposed Amendments to National Instrument 31-103 - Registration

Requirements and Exemptions

We are providing this letter in response to the Request for Comments of the Canadian Securities Administrators (the "CSA") on the proposed amendments to National Instrument 31-103 – Registration Requirements and Exemptions ("NI 31-103"), Companion Policy 31-103 – Registration Requirements and Exemptions ("CP 31-103) and National Instrument 31-109 – Registration Information ("NI 31-109"), published on June 25, 2010 (collectively, the "Amendments").

### Background to Stonegate Private Counsel, a division of CI Private Counsel LP

Stonegate Private Counsel ("Stonegate") is a registered portfolio manager and exempt market dealer that provides discretionary management and integrated wealth planning services to high net worth clients. Stonegate is a subsidiary of CI Investments Inc. and an affiliate of the CI Financial Group of companies that currently has approximately \$88 billion in fee-earning assets. Stonegate is pleased to draw on its experience as a discretionary portfolio manager with significant private client relationships to give its perspective and comment on the proposed amendments, set out below.

#### Section 8.6 - Investment fund trades by adviser to managed account

We agree and support the CSA's proposal to broaden the dealer registration exemption for advisers by including trades in prospectus qualified investment funds and in effect eliminating the Ontario and Newfoundland investment fund carve out.

However, the requirement in section 8.6 (1) (a) that the adviser act as <u>both</u> the funds adviser and investment fund manager limits this exemption to only those advisers that manage and administer their own investment funds. An adviser that uses funds subadvised by either affiliated or external portfolio managers would not be able to rely on this exemption when placing trades, including rebalancing trades on behalf of its managed account clients. Due to this technicality, an adviser (in this case acting as an overlay manager) would be required to register as an exempt market dealer ("EMD") if trading, rebalancing and managing client portfolios using sub-advised investment funds.

The issue is that an EMD registration results in a number of dealer obligations and creates potential conflict and confusion for EMD registered advisers that may not have been intended by the CSA. For example, an adviser that manages client portfolios using sub-advised investment funds would be required to register as an exempt market dealer and have a higher capital requirement per section 12.1(b), deliver trade confirmations to its clients per section 14.12, and deliver quarterly and monthly client statements per section 14.14 or seek an exemption from these requirements, that an adviser trading in its own investment funds would not be subject to.

As well, the statement delivery obligation of an EMD are inconsistent with the statement delivery obligation of an adviser in that advisers are not required to send monthly statements to clients, and a client of an adviser has the option to suppress the adviser's quarterly statement, but not a dealer statement. This (and other inconsistencies) creates confusion for an EMD registered adviser, and eliminates the benefits the CSA achieved by codifying certain common exemptions in NI 31-103 that advisers had to previously apply for resulting from registration as limited market dealers.

We do not believe it was the intent of the CSA to create the potential for confusion or add an unnecessary burden of registration as an EMD for advisers, due to a technicality between an adviser trading an investment fund it manages itself or one that is sub-advised by a third party or affiliated portfolio manager.

The protections available to clients and registration obligations of an adviser, continue to exist regardless of whether the client's managed account consists of sub-advised funds, the adviser's own managed funds or segregated assets. In all cases, the adviser has a fiduciary duty to its clients and must meet its registration obligations.

We propose the CSA expand the dealer registration exemption contained in section 8.6 for advisers to include trades in sub-advised funds along the lines of:

- a) the trade is to a managed account of a client of an adviser; and
  - i) the adviser acts as the fund's adviser and investment fund manager; or
  - the adviser trades in funds that are sub-advised by an adviser that is also the fund's investment fund manager.

## Section 14.14 Reporting on each security position in the account

The CSA has asked registrants to consider and comment on a proposal requiring registrants to report on their statements client named securities with a view to standardization. Our responses to questions 1 through 8 are below, following our general view of this proposal. In principal, this proposal no doubt is a value-add to clients in that the requirement would allow clients to see all their holdings consolidated onto one statement from the firm whom they deal with directly.

However, we would like to note, this 'value-add' is a convenience rather than addressing any known current or past issues that may be related to gaps in protecting client interests or the operation of fair and efficient capital markets. Under NI 31-103 sections 14.14 (4) and (5) prescriptive information requirements on client statements have already standardized reporting for all registrants, whether the client receives one statement or multiple statements. Proposing to go a step further by mandating registrants report securities held in client name, but not under their control, will lead to issues relating to operational processes, reconciliation of transactions and data between firms/issuers, and could certainly result in requiring even more prescriptive rules necessary to resolve these issues, thus moving away from a principal based standard where registrants have the flexibility to determine how best to meet the regulatory requirements with the freedom to evolve and respond to market demands accordingly.

We respectfully submit this proposal does not appear to be within the scope of the CSA's mandate of protecting investors from unfair, improper or fraudulent practices and fostering fair, efficient and vibrant capital markets, but rather is an operational directive that could result in unintended consequences of requiring further prescriptive rule making. All of this has the potential of adding costs to a registrant's operational budget and which would inevitably be passed down to the client. Firms with large information technology budgets, and systems/back-office infrastructure could possibly absorb these costs while smaller firms will suffer thereby creating an unlevel playing field.

We are of the view that providing clients with consolidated reporting is a feature that should definitely by permitted for both SRO and non-SRO registrants, but at their choosing. Ultimately it is the client that will drive the demand for value-added features from the entities they do business with. Registrants should have the option of providing clients with these features without being mandated one way or the other (e.g. IIROC should not be mandating that its members not report client named securities held off book, anymore than the CSA is proposing that it should mandate registrants to report client named securities held off book).

#### Responses to CSA's questions, 1 through 8:

- 1. We agree that clients would benefit from having their client named securities reported on the same statement as nominee held positions to the extent that it reduces paper and provides clients with a consolidated view of their holdings, on a consistent mailing/reporting frequency. However, should the process for placing trades and taking instructions from clients on client named securities differ from those that are held in nominee name, this would have to be explained to clients and would potentially cause confusion since the registrant is reporting the securities on the same statement, but physically does not have control over those securities. In order for the client to really benefit from this proposal and perceived consolidation of holdings, the client would expect to only have to transact with the registrant whom they have their primary relationship with, as opposed to multiple firms/issuers.
- 2. Including fair value prices on illiquid securities may be useful to clients so long as the process and sources for obtaining fair value is standardized and there is a clear disclaimer that a value does not indicate a market or ability to obtain that price. Registrants should be permitted to obtain information from recognized third party data providers (i.e., a custodian, specified dealers, etc.). We do not believe it is useful to provide fair value of illiquid securities that are restricted, halted, private placements, private issues, or where there is no market or a market maker.
- 3. Issuers and qualified custodians that provide custody services to registrants that comply with fair value pricing should be allowed to provide pricing to registrants. We cannot comment as to the frequency of issuers providing this information; however there must be standardization regarding frequency of providing data and cut-off times to ensure registrants can meet their statement delivery obligations and timelines for generating monthly or quarterly statements. Registrants whose statements are delayed or need to be regenerated due to lack of timely information or data errors from the issuer, etc. should not be penalized for not meeting their delivery deadlines set by the regulators or bare the cost of regenerating erroneous statements.
- 4. Registrants should be able to obtain information on client named securities from the issuer or a custodian that holds the securities for the client, so long as there is standardized data protocol amongst registrants, issuers and custodians. Registrants should not be required to report data from issuers that cannot provide standardized data and IFRS reporting.
- 5. Registrants that report client named securities that are off book must reconcile transactions, price and other data that its systems may report differently than the issuers due to differences in coding and security set-up. These changes will require programming updates. At minimum it would be prudent for registrants to distinguish client name positions held off-book and nominee positions reported on the same statement, including having a mechanism to restrict the ability to trade client named securities not under the registrants control. The difficulty in achieving this will vary between firms, but no doubt is an added cost to the registrant providing this information.

6. A client relationship is started at the time an account is approved and opened by the registrant and ends when the client transfers out all its assets or terminates the relationship by notifying the registrant. Where an account has client named assets and is dormant, consideration must be given as to the length of time an account is inactive before it is deemed to be closed. An important factor should be whether the client can be reached in order for the registrant to conduct periodic know your client ("KYC") and suitability reviews and the last client driven activity in the account. For example, if an account is dormant and the client cannot be reached or does not respond to a request for a KYC update, we would want to deem the client relationship to have ended and the account closed.

7. We agree with the CSA that registrants should be exempt from reporting client named securities held in certain accounts (i.e., DAP/RAP accounts). We suggest registrants should be exempt from reporting client named securities not on the books of the dealer on margin accounts, as well. There are too many complications.

8. Yes, a transition period not less than 1 year should be provided, following the establishment of industry standardization of data files and fair value pricing amongst issuers, custodians and registrants.

In connection with the CSA proposal to include client named securities on account statements, we would like the CSA to consider, in addition, a proposal to exempt advisers from section 14.14 (4) if the information specified in that section is being met by the custodian that holds the client's assets. For example, if a client's custodian is sending quarterly and/or monthly statements to clients of an adviser that shows transaction history in the prescribed form under section 14.14 (4), advisers should not need to send the same transaction history on their statements to clients, subject to the client agreeing to such an arrangement and so long as its made clear the roles and responsibilities of each party in this regard. We feel that this proposal can allow for greater efficiencies, reduction in paper which clients want, eliminating duplication and other reporting issues, while still providing clients with the necessary information on their accounts as prescribed by the rules.

We appreciate the opportunity to comment on the Amendments. If you have any questions regarding our comments, please contact the undersigned.

Yours very truly,

Stonegate Private Counsel,

a division of CI Private Counsel LP

Alana Dubinski

Vice-President, Compliance