QFS QUANTUM FINANCIAL SERVICE (CANADA) LTD.

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TO:

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
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

C/O:

John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West, Suite 1903, Box 55
Toronto, ON
M5H 3S8

September 23, 2011

Dear Sirs,

This letter is in response to the Request for Comments on Proposed Amendments to National Instrument 31-103. In particular, we wish to comment on certain of the proposals surrounding account performance reporting.

Quantum Financial Service (Canada) Ltd. is registered in British Columbia as a Restricted Dealer (Restricted to Exchange Contracts). That is, we are futures brokers.

It is our understanding that the proposed amendments will affect our firm by virtue of the wording in NI 31-103 that, "[in British Columbia] a reference to 'securities' in this Instrument includes 'exchange contracts'…". Further, through talking with BCSC staff, we understand that the proposed amendments are intended to apply to firms like ours Canada-wide.

The proposed amendments may make sense in a traditional *investment* or *retirement planning* context. However, futures trading is a highly *speculative* endeavour. As such, clients only use risk capital and, for most, their futures trading is considered *outside* of their investment plan.

The futures markets are unique in ways that render these proposals ineffective. Speculative trading is very unlike traditional investing. Clients go into trades understanding that they can lose all, or more, of the money in their account, and they do so with the hope of astronomical returns. The return on capital comes entirely from buying or from shorting the commodity futures, whereas in a traditional security investment returns may also arise from interest and dividends.

Performance reporting of the sort contemplated is neither sought by our clients, nor would it add useful information to their trading activities. In fact, in some cases it may even lead to distortions and the potential for unintended consequences that are contrary to the public interest.

Everyone in the futures industry has seen trading results and behaviours in this unique arena that could create problems that run counter to the intention of these proposals:

A) With regard to the proposed requirement to show the net investment: When clients make a large gain, it is common for them to withdraw the amount of the initial deposit - or more - and consider that from that moment forward they are trading with "the market's money". In fact, we encourage this conservative approach to a risky market.

   As a practical matter, though, this makes their net investment *zero* or even *negative,* which is an obvious distortion of their true trading activities and results.

B) With regard to the proposed requirement to show percentage returns: If a client's net investment is zero or negative, it is easy to see how this can lead to nonsensical percentages.

   For example, if a trader makes a profit on a negative net investment, is the percentage return infinite?

   More importantly, showing an extremely high – whether distorted or not – percentage return could even legitimize behaviours by certain individuals that are contrary to the public interest:

   - Everyone has heard of traders boasting about their successes in the markets. When the boasting is verbal it can be dismissed as simple braggadocio. But if the boasting is accompanied by an official statement showing returns of well over 100% (and we have seen such client returns in recent years), other individuals may be tempted into high-risk activities for which they are not suitable, and with an unreasonable expectation of similar returns.

- Worse still, there is the potential for unregistered traders to solicit and/or receive requests from the public to manage money for a fee. A broker-issued statement showing an astronomical percentage return would lend legitimacy to their exaggerated claims. Regulators have seen such incidents from time to time, and it undermines the integrity of the markets.

The futures industry has already dealt with these concerns on its own to provide a truer picture of a client's activities. Futures dealers already provide clients with timely and reliable statements that show detailed *relevant* information such as net cash flows, gross and net profits, net option premium paid, and a breakdown of all associated trading fees on both a monthly and on a year-to-date basis. **Therefore, the proposed amendments are unnecessary in the futures industry.**

We are of the firm opinion that activities relating to futures and options on futures should be excluded from the proposed performance reporting amendments.

Thank you for your consideration.

Sincerely,

James Ho, MBA
President
Quantum Financial Service (Canada) Ltd.