October 19, 2018

BY EMAIL

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission of New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
comments@osc.gov.on.ca

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, Square Victoria 22e étage
C.P. 246, tour de la Bourse
Montreal (Quebec) H4Z 1G3
Fax: 514-864-6381
Consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames,

Re: Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations (“NI31-103”)*

and to

Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations (“31-103CP”)*

Portfolio Strategies Corporation (“PSC”) is a Calgary-based dealer that is a member of the Mutual Fund Dealers Association of Canada and registered as a mutual fund dealer and exempt

market dealer in Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, and Quebec, and as an investment fund manager in Alberta and Ontario.

We appreciate the opportunity to provide comments on the CSA/ACVM Notice and Request for Comments (the "Notice") dated June 21, 2018. Below we provide our overall comments followed by our responses to the three questions posed in the Notice.

Part 3 Registration requirements - individuals

3.4.1 Firm's obligation to provide training

3.4.1(1) p.52 A registered firm must provide training to its registered individuals on: a) compliance with securities legislation including, without limitation, the obligations respecting conflicts of interest, the know your client and know your product obligations, and the obligation to make a suitability determination; b) the structure, features, returns and risk, and the initial and ongoing costs and the impact of those costs, of the securities available through the registered firm for the registered individuals to purchase or sell for, or recommend to, clients.

It is unrealistic to expect dealers to provide training on all of the intricacies of thousands of approved products; it would be impossible for a dealer to assess and provide such a large quantity of detailed information to registered individuals within a reasonable timeframe, in addition to expecting them to retain such information. Realistically, the Issuers are the experts on their respective products and business models, and should be permitted to educate registered individuals on the particulars of their products as they are approved and updated. If there is a concern regarding questionable disclosure, overselling or deliberately underestimating the risks of the product, we suggest that having dealer compliance staff present in all product presentations and webinars, that are qualified to identify unsuitable statements from Issuers, should be sufficient.

Part 13 Dealing with clients – individuals and firms

13.2 Know your client

31-103CP p.191 Client's financial circumstances; Registrants should obtain a breakdown of financial assets, including deposits and type of securities such as mutual funds, listed securities, exempt securities, and net worth, which should cover all types of assets and liabilities.

We agree that inquiring and understanding a client's financial circumstances is an important aspect of each client-registrant interaction, however this level of detail may come off as intrusive, and not all clients may be willing to provide this information. In our opinion, uncovering sufficient asset and liability information to properly know a client is not likely to be a common MFDA or IIROC dealer issue, but may be more appropriately applied to EMDs only; exempt market investors must meet certain asset and income requirements in order to be considered eligible or accredited, although there is minimal proof required at this time to show that clients meet such thresholds. Please consider applying this Proposed Amendment to exempt market dealers only.

31-103CP p.193-194 Subsection 13.2 (4.1) sets out the minimum frequency for reviewing and updating a client's KYC information. Some registrants may need to review and update a client's information more frequently in response to significant changes in the client's circumstances. If an exempt market dealer is also registered in another dealer registration category, we expect that KYC information is updated within 12 months prior to making a trade or recommendation of an exempt security.

Section 13.2 (4.1) indicates that registrants are required to make reasonable efforts to keep their client's KYC information current, and that they must review the information at minimum intervals of 12 months for managed accounts, 12 months prior to making a trade or recommendation for exempt market dealers, and 36 months in any other case.
We agree with these guidelines and feel that reasonable steps are currently being taken to ensure client information is correct and up-to-date.

13.2.1 Know your product
13.2.1(3)(a) p.92 A registered individual must not purchase or sell a security for, or recommend a security to, a client unless the registered individual takes reasonable steps to understand (a) at a general level, the securities that are available through the registered firm for the registered individual to purchase or sell for, or recommend to, clients and how those securities compare.

In our opinion, it would be unreasonable to expect registered individuals to retain an understanding of each individual security approved at their dealer, as well as perform a comparison analysis on each product. It is unrealistic for registered individuals to know the details of thousands of mutual funds; however, this concept could be more comprehensible when considering exempt market dealing representatives who may only need to have a thorough understanding of a handful of approved products. If this were a requirement for all SROs, dealers would have to reduce the quantity of products on their shelves, which would in turn provide less choice for clients. Lack of choice would be detrimental to clients and would be counter-productive to the CSA/ACVM's goal of improving the client-registrant relationship.

31-103CP p.197 Monitoring: A firm's KYP process must include a process for monitoring and reassessing securities that have been approved by the firm and continue to be made available to clients, to confirm that they remain appropriate over time. In addition, firms are expected to maintain reasonably up to date analyses of securities held in their client accounts even if they no longer continue to make those securities available to clients.

Additional monitoring of securities no longer available to clients would be an onerous task for any dealer's compliance department. In the case of an illiquid exempt security, the purpose of continuous KYP monitoring is unclear; in some cases, if a company's business plan struggles or fails, there could be no redemption privileges available to investors anyway. Similarly, ongoing due diligence on closed offerings would also be of limited value. Please clarify the value added on this Proposed Amendment.

13.3 Suitability determination
31-103CP p.199 Portfolio approach to suitability: Suitability must not be determined only on a trade by trade basis, but rather on the basis of the client's overall situation. Registrants must consider suitability in the context of the client's accounts at the firm, including the impact of the recommendation or decision on the account and the overall concentration and liquidity in all of the client's accounts as further explained below; a) Multiple accounts held by the client at the registrant and b) Investments held by the client outside the registrant.

While we agree with a comprehensive portfolio approach to suitability, we believe it will be difficult to enforce this amendment and oblige clients to divulge any additional investments held outside of the registrant. Should the client object to providing the registrant with these details, it would be near impossible to otherwise obtain this information and perform the suitability determination based on the client's overall situation. We feel that a signed client acknowledgement to this effect should be sufficient to exempt dealers from this requirement.

31-103CP p.200 Portfolio concentration: When assessing concentration as referred to in subparagraph 13.3(1)(a)(v), registrants should consider the client's overall portfolio concentration and document reasonable concentration thresholds to ensure that a client's total investment in exempt market securities , or a particular security, sector, or industry does not exceed thresholds that would make the investment being unsuitable in accordance with paragraph 13.3(1) (a).

Similar to the previous point touching on suitability determination, while we agree that portfolio concentration is best-off assessed with knowledge of a client's entire portfolio both within and outside of the registrant, it can be difficult to obtain this level of information if the client is unwilling to disclose it. As there is no set number or percentage defining whether a client's investments are "over-concentrated", this may be open for interpretation in this Proposed Amendment, and we require more specific guidance.

13.4. A registered firm's responsibility to identify conflicts of interest
13.4(1) p.94 A registered firm must take reasonable steps to identify existing conflicts of interest, and conflicts of interest that are reasonably foreseeable, between (a) the firm, including each individual acting on the firm's behalf, and (b) the client.

Significant amendments were made to 13.4(1) and 31-103CP p.202, where the term "material" was removed throughout each paragraph. We recommend that the CSA/ACVM reinstate materiality, as without this term, the Proposed Amendment would result in a need for a limitless amount of immaterial conflict of interest disclosures, resulting in increased administrative requirements with little to no benefit to the client.

13.8 Permitted referral arrangements
13.8(1)(a) p.97 A registered firm, or an individual acting on its behalf, must not provide a referral fee to another person or company unless all of the following apply: (a)the person or company receiving the referral fee is a registered individual.

We agree with this Proposed Amendment, suggesting that only registered individuals should be able to receive referral fees. As registered individuals, they will be able to carry out any applicable registerable activity that has resulted from the referral arrangement. Registered individuals will still find it helpful to refer their clients to other registered individuals for services that they are not licensed to execute.

13.8.1 Limitation on referral fees
13.8.1 p.98 A registrant must not provide or receive a referral fee if one or more of the following applies: (a) the referral fee constitutes a series of payments that continue longer than 36 months from the date of the referral; (b) the referral fee constitutes a series of payments that together exceed 25% of the fees or commissions collected from the client by the party who received the referral; (c) the referral fee results in an increase in the amount of fees or commissions that would otherwise be paid by a client to the party who received the referral for the same product or service.

We view 13.8.1(c) as an important addition to this subsection, as it prevents additional fees from being imposed on referred clients. For example, the portfolio manager will be prohibited from increasing referral fees charged to the client, in an attempt to maintain their existing 1% trailer fee.

Part 14 Handling client accounts - firms

14.1.2 Duty to provide information
14.1.2(1)(c) p.102 A registered firm must make publicly available information that a reasonable investor would consider important in deciding whether to become a client of the registered firm, including general descriptions of the following: c) the charges and other costs to clients, including any current fee schedule, associated with the products, services and accounts.

Currently, dealers are not required to provide fee-related information to potential clients in a public format. This Proposed Amendment would allow potential investors to view fee-related information publicly, without being provided the opportunity to have a discussion with a registrant regarding the reasoning and purpose behind said fees. As there are higher costs associated with operating a full-service dealer, we are unable to compete on price in the same way that Robo-advisors and discount brokers are able to; although these low-cost investment methods are suitable for some, not all clients are comfortable with non-traditional fintech or DIY solutions. We recommend altering the Proposed Amendment to encourage registrants to provide fee-related information to clients on new account openings and on a transactional-basis; we would prefer to provide point of sale disclosure documents to clients that we have agreed to work with, based on their financial needs and investment criteria. In our opinion, this Proposed Amendment focuses on price as the most important determining factor, when a deeper explanation of value received should be considered.

14.2 Relationship disclosure information
14.2(2)(b)(i) p.103 Without limiting subsection (1), the information delivered to a client under that subsection must include the following: (b) a general description of the products and services the registered firm offers to the client, including (i) whether the firm will primarily or exclusively provide proprietary products to the client.

We agree with this Proposed Amendment, as it would offer clients a comprehensive breakdown of all proprietary and non-proprietary products on the dealer's shelf, as well as bring light to the differences between the two types of products. Full, transparent product disclosure provides clients with the information they need to make educated decisions on the investments they choose to purchase.

<u>Questions from the Notice</u>

Transactional relationships
Exempt market dealers often have transactional or "episodic" relationships with their clients, in contrast to the ongoing character of client relationships in other categories. Would the Proposed Amendments pose implementation challenges unique to transactional relationships, or would they have other unintended consequences related to them?

Annual KYC updates for exempt market dealers may be an unnecessary burden, because many exempt products are illiquid for several years, as disclosed in the respective offering memoranda. A material change in a client's situation will not change the fact that they can't liquidate growth-oriented, illiquid investments. We find this idealistic concept to be highly disconnected from the reality of the marketplace.

Conflicts that must be avoided
Are there specific conflicts of interest that cannot be addressed in the client's best interest and must be avoided?

The CSA/ACVM now appears to be taking the position that IFMs are in a serious conflict of interest, however we fail to see why that is the case. The IFM role to get products on Fundserv is a conflict of interest that can't be avoided; since this role is often admin oriented with little revenue involved, we still do not perceive this to be a serious conflict of interest. Additionally, the sale of higher cost proprietary funds when superior, lower cost funds are available at a dealer, poses a conflict of interest, but we would not go so far as to say they must be avoided in all cases.

Referral fees
Does prohibiting a registrant from paying a referral fee to a non-registrant limit investors' access to securities related services? Would narrowing section 13.8.1 [Limitations on referral fees] to permit only the payment of a nominal one-time referral fee enhance investor protection?

Prohibiting a registrant from paying a referral fee to a non-registrant would definitely not limit investors' access to securities related services, because access is not dependent on a referral source. Paying a nominal one-time referral fee would absolutely not enhance investor protection, as the management fee will stay the same; the only change will be increased profit margins for the referral recipient (such as a portfolio management firm, for example).

Thank you for the opportunity to provide our comments. If the CSA/ACVM have any questions or require additional clarification, we would be pleased to discuss our comments further.

Yours truly,

"Mark Kent"

Mark S. Kent, CFA, CLU
President & CEO
Portfolio Strategies Corporation