



June 19, 2007

John Stevenson  
Secretary  
Ontario Securities Commission  
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Dear Mr. Stevenson:

Thank you for the opportunity to respond to the National Instrument 31-103 and related policies, forms and issues.

Worldsource Financial Management Inc. (Worldsource), a subsidiary of Worldsource Wealth Management Inc., is a mutual fund dealer with a national network of more than 450 advisors and approximately \$5 Billion in assets under management.

Worldsource supports this initiative. We believe that the harmonization of registration categories is a significant improvement. Below, please find our specific comments:

- **Registration Reform Project (Proposed NI 31-103) – IFIC Submission**

Worldsource Financial Management (Worldsource) fully supports IFIC's submissions with respect to dealer issues.

- **Business Trigger**

The business trigger should not require *unlicensed* dealer or branch support staff to register. The current operating distinction between licensed and unlicensed staff and assistants is satisfactory and well understood in the industry.

- **Licensed Mutual Funds Sales Assistants**

There should be a registration category for licensed mutual fund sales assistants. This category would be similar to the Investment Representative category recognized by the IDA. Registrants in the category would be permitted to take and submit client orders for execution, but not provide investment advice. Proficiencies could be the Canadian Investments Funds Course and a 30 day training period.

- **Registration Requirements**

Fee based financial planners should be required to register. The advice given by financial planners is in a practical sense investment advice. Financial planners may not recommend specific securities, but they do recommend types of investment solutions encompassing asset allocation. Their recommendations may cause people to make investment decisions and may result in investors purchasing securities from an on-line broker without investment advice.

The business trigger should not result in industry service providers, such as data providers and fund transfer services, having to register.

- **Mutual Fund Dealer Category**

Section 2.1(b) states that mutual fund dealer are permitted to deal *solely* in mutual funds. This is not acceptable. Mutual fund dealers currently sell many non mutual fund products, including GICs, segmented funds and other life type products — PPNs, hedge funds and alternative investments.

The proposed category should not be more restrictive than the current reality.

Mutual Fund dealers should automatically be registered as scholarship plan dealers and exempt market dealers without further and separate registration. Mutual fund dealers will permit only those advisors with the appropriate proficiency to sell exempt market products.

- **Exempt Market Product Proficiency**

The Canadian Securities Course is too general to be a satisfactory proficiency for exempt market products. We support IFIC's submission to develop product specific proficiency modules and exams for the exempt product shelf. We also support ongoing proficiency and continuing education so that registrants will have current product knowledge.

- **Exempt Market Dealer**

There should be a clear definition or principled guidelines that will provide some clarity as to what qualifies as an exempt product. The definition of exempt dealer as a dealer selling securities distributed under a prospectus exemption is not satisfactory. The definition is unsatisfactory because it depends on the interpretation of prospectus requirements and the definition of a security. The Provincial Securities Acts should be harmonized to achieve this objective. It would be of assistance to provide some guidance respecting the types of products that are considered to be exempt.

- **SRO Membership**

All dealers in the retail market should be under SRO supervision. This includes IC/PMs, scholarship plan dealers and exempt market dealers. In our opinion there should be one national SRO to supervise all retail investment and securities product distribution.

- **Exchange Traded Funds (ETFs)**

Mutual Funds dealers should be able to sell ETFs. ETFs have many of the characteristics of mutual funds. They also have attractive fees that allow advisors to reduce their client's costs. Allowing Mutual Fund dealers to sell ETFs will enhance competition in the industry. If necessary, training in ETFs could be included in the Canadian Investment Funds Course.

- **Insurance Products and Segmented Funds**

Insurance products, such as universal life policies and segmented funds, are attached to underlying security investments. However, provincial insurance regulators do not impose security type regulation on the sale of these products. There is no KYC requirement or transparent disclosure. This results in "regulatory arbitrage". Insurance products with an investment component should be subject to the same sales compliance regime as securities products.

The CSA should work with Provincial Insurance regulators to harmonize the regulatory treatment of insurance products with an investment component, particularly segmented funds.

- **Restricted Dealer Category**

There is a concern that a dealer may avoid SRO regulation by making a submission to be a restricted dealer. It must be made clear that no dealer that would otherwise have to be a member of an SRO should be permitted to be a restricted dealer.

- **Incorporated Sales Persons**

Worldsource supports the MFDA proposal to continue to permit the principal-agent model with commissions directed to personal corporations. The National Instrument should specifically permit this model.

- **Relationship Disclosure Document (RDD)**

Worldsource has responded to the MFDA regarding the RDD. Worldsource agrees the content of the RDD proposed by the MFDA is valuable and necessary for investors.

However, to add the RDD into the account opening process without consideration of the process as a whole will result in little added value to the investor. When the RDD is combined with the simplified prospectus and other mandated disclosure and account documentation, the investor is confronted with an excessive amount of documentation that is inevitably ignored or not understood. The RDD duplicates information that is provided in other disclosure documents.

It is essential that the entire disclosure process at account opening and point of sale be simplified and rationalized. This would include the development of a simple two page disclosure of a mutual fund product that would be delivered at the time of sale instead of a simplified prospectus. In addition, other mandated regulatory disclosures that typically are in the account opening process should be centralized in the RDD.

The RDD proposal should be considered together with the ongoing point of sale initiative driven by the Joint Forum (CSA/CCIR) and as part of a broader initiative with the objective of setting out a principle based rational approach to the client relationship.

It is our belief that simplified and rationalized disclosure is the most effective way to achieve investor awareness and education. The RDD will have no positive effect if it is just added on to an already cumbersome and inefficient process.

- **Client Complaints**

There should be a clear and practical definition of a complaint. When a complaint involves litigation, dealers should be able to respond through the litigation process and not be bound to resolve complaints involving litigation or anticipated litigation within a 3-month period.

- **Suitability**

Worldsource has no objection to the suitability requirements set out in the National Instrument. However, the CSA should require that no SRO impose suitability requirements that are inconsistent with the National Instrument. It is important that all investors and industry participants be subject to the same rules and requirements. Investors should have the right to consistent treatment across the industry.

- **Branch Manager/Supervisor**

Worldsource supports the two-tier compliance supervision principle. We are also opposed to proscriptive compliance structure requirements. Worldsource supports a principled based approach to compliance supervision. A principle based approach is superior because it permits dealers to structure themselves around their chosen business model.



The regulatory imposition of business models involving specific branch supervision structures or non-producing supervisors will drive up the cost of doing business for a dealer and will result in fewer dealers, decreased public access to mutual fund dealers (especially in remote areas) and decreased competition among dealers.

The CSA should mandate that the SROs take a principle based approach to compliance and supervision.

### **Conclusion**

Thank you for the opportunity to express our opinion with regard to this important industry initiative. Overall, we feel that the industry is heading in a positive direction. However, we must be cognizant of how all the changes relate to one another and how they impact all the stakeholders, with the end client's best interest at the forefront.

Regards,

A handwritten signature in black ink, appearing to read "Andy Mitchell". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Andy Mitchell  
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