APPENDIX "A" - DEALER COMMENTS

1.1 OVERVIEW

The Dealer Issues Committee struck a working group (the "DICWG") to provide comments on the White Paper Addendum. This group consisted of representatives from 8 dealers, 7 of which operate in client name. We believe the Recommendations represent a positive step toward achieving a workable STP environment and we are supportive of the goals and importance of achieving STP despite the few concerns noted below.

The DICWG received additional input from Dealers, externally and within the group, that operate in both nominee and client name. Nominee Dealers and Client Name Dealers agreed on many aspects of the Recommendations, specifically in relation to transactions that Fund Companies request in manual/physical form based, not on the requirement of physical settlement, but on preference of business practice. All Dealers strongly agree with the Recommendations relating to the elimination of manual trades sent directly to the Fund Companies due to lack of compliance to the standards and compliance matrixes set by the Electronic Standards Group ("ESG"). Dealers fully endorse the RTPWG Recommendations to achieve unilateral Fund Company adoption of consistent standards for manual trades requested by Fund Companies, such as "Free Unit" trades.

Although commonality exists between Nominee Dealers and Client Name Dealers on issues such as the above-noted, a divergence exists between the two constituencies. For instance, Client Name Dealers have additional challenges relative to the physical settlement requirements of client name trades that Nominee Dealers are not subject to. Therefore, for the purposes of the remaining comments that follow, we respectfully submit comments on behalf of the Dealers selling mutual funds and operating in client name.

One consistent perception among industry participants of the DICWG was that the Recommendations appear to lead to an effective "outsourcing" of the responsibility and liability for client name processing and a downloading of this cost from Fund Companies to Fund Dealers who operate predominantly or exclusively in client name. We fear that if this perception is real, that it will seriously impede the voluntary adoption of the Recommendations and the goal of a timely STP model.

The DICWG is concerned that a more detailed determination of the impact on investors in respect of the Bankruptcy and Insolvency Act and MFDA Investor Protection Corporation does not yet exist. This impact assessment task has not yet been undertaken and no milestone dates have been set. The DICWG felt that determining the level of risk to the investor is critical and implementation of Document Agreements must be contingent on conclusive findings and significant disclosure in order to protect the investing public.

The Document Agreement and Money Movement Recommendations require that each Dealer build infrastructures, perform system development, and create new policies, procedures, and practices. Rather than one single industry solution, the DICWG was concerned the Recommendations would call for substantial redundancies as hundreds of firms each build their own Document Agreement/Money Movement infrastructures, thus compounding the costs to be incurred by industry as a whole. Furthermore, if multiple Dealer firms are required to create these infrastructures, it can be anticipated that a number of different solutions will be implemented by Dealers. Thus, contrary to the goal of STP, the industry will in fact incur additional costs in order to ensure compliance to the standards and policies and procedures for Document Agreements contemplated by the Client Name Working Group ("CNWG").

1.2 DEALER RESPONSE TO SPECIFIC REQUEST FOR COMMENTS

1.2.1 Documentation Analysis

The DICWG is concerned that the Documentation Analysis is based on assumptions regarding process and an assumed level of compliance with industry requirements and regulation rather than empirical data obtained through consultation with Client Name Dealers. We also question the validity of the basis for the assumptions regarding supervision, and books and records requirements. It is the view of DICWG members that the majority of these activities do not require physical documents to be on-site at the Dealer's Head Office; rather they can largely be conducted by way of branch audits and supervisory review of reports, statements, and on-line compliance tools. Further, many Client Name Dealers may not be aware of their current level of compliance with industry books and records requirements because they have not had the benefit of any type of on-site regulatory review, either from the MFDA or directly from a member of the Canadian Securities Administrators ("CSA").

1.2.2 Document Agreements

We are concerned that many Client Name Dealers may not currently have the infrastructures to accommodate Document Agreements, nor the financial resources to build them in the timeframes considered in the Recommendations. Furthermore, in the absence of a cost benefit analysis of the impact of Document Agreements on Dealers, we are concerned that the impact on Dealers has been substantially underestimated in relation to the financial burden of the costs and expense to build infrastructures.

The DICWG is concerned that the Dealer infrastructure contemplated by the Recommendations may not be as harmonious with the trade supervision requirements as suggested in the White Paper Addendum, and in fact demands and entirely new business model that is incongruent with the current primary business structures employed by MFDA Client Name Dealers.

Dealers were not surveyed in order to ascertain whether or not they currently have the infrastructures in place for document storage, retention, and imaging as contemplated under Document Agreements. Surveys were not conducted by the CNWG, and these specifics were not covered in the STP Readiness Survey sent to Dealers by the CSA.

The DICWG conducted a survey of the seven Client Name Dealers on the working group. Summarized in Appendix "B" are the findings of the DICWG survey. The findings strongly support the fact that the CNWG assumptions about the current infrastructures of Dealers cannot be substantiated.

The survey revealed that original physical client documents reside at the Branches and not the Dealer Head Office for 71% of the firms, and 75% of the Dealers permit their Advisors to send physical account opening and trade settlement documents directly to the Fund Companies. Although many of the Dealers responded that they had at least some capacity, document infrastructure, and imaging, the findings of the survey indicate that 100% of Dealers surveyed estimate that they would be required to make significant or very significant investments to build Document Agreement infrastructures. Of important note is the fact that the Dealers represented on the DICWG include the majority of the largest Dealers who operate in client name. Therefore, it can be anticipated that the smaller Dealers who have not been included in the survey would be even worse off. The DICWG's general concerns on Document Agreements are:

i) Compounds the costs to the industry
ii) Numerous solutions implemented by multiple Dealers
iii) Compliance to standards, policies, and procedures at risk

The Document Agreement recommendation contemplates the ability of the Fund Companies to audit Dealers for compliance to documentation standards. We suggest that this would not be an effective means of regulation due to the Fund Company/Dealer relationship of supplier and customer. We would anticipate conflicts of interest in this regard, and doubt that regulators would approve the methodology. Therefore, it can be anticipated that external third party auditors would perform the audits of Dealers. Again, we are concerned about the costs of these audits, and who would be expected to bear the costs, Dealers or Fund Companies?

The DICWG has concerns regarding the practicality of Document Agreements including administration, tracking, storage, and systems. Although a "Standard Agreement" has been discussed, our committee has reservations about this as a realistic and viable solution the industry can agree on quickly and one that would satisfy regulators. (This process was compared to the difficulty and frustration encountered by participants in developing the Limited Authorization form).

In addition, the DICWG questions where the Document Agreements will reside, a central depository, with each Dealer and each Fund Company? Ultimately, the decisions and outcome to address these practical issues will also have bearing on costs to Dealers, Fund Companies, and the industry.

a) Dealer Costs and Liability

As mentioned earlier, the assumptions in the White Paper Addendum may have substantially underestimated the resulting costs that Dealers will incur if Document Agreements are adopted, including but not limited to:

i) Systems development
ii) Document imaging/storage
iii) Human resources, staff, training
iv) Legal and compliance
v) CSA/MFDA insurance costs contemplated
vi) Conversions – systems, I.T., etc.

It can be anticipated that many Dealer firms, particularly a large number of smaller niche operations, will not have the financial resources available to invest in infrastructures for Document Agreements. As found in our DICWG survey, even the largest of the Dealers who operate in client name will find it either challenging if not impossible to invest further into systems for Document Agreements, over and above investments already made in the last two years as a result of new MFDA SRO requirements and regulations. The result will be an unfair playing field, where the large integrated distributors will prosper, while the smaller niche firms will be confronted with another "barrier to entry", and some firms will simply be forced to exit the business. This obviously has the undesirable effect of reducing choice to the investor.

b) Fund Company Cost Savings

The DICWG would find it useful for the RTPWG to fully disclose the methods employed by the CMWG to analyze current manual, direct, and physical trades and settlements received at the Fund Companies. How was data gathered? What data is available for analysis of Dealers by the DICWG to gain a perspective of the costs and benefits of the Recommendations? It was felt that before Dealers in the industry can agree to Document Agreements shifting responsibility, liability, transaction processing, administration, document storage/imaging, etc., Dealers would need to have a compelling quantitative perspective of the following:

i) volumes
ii) peak periods
iii) transaction types (purchases, redemptions, switches)
iv) percentage of trades requiring physical settlement/paper
v) number of Dealers who operate in client name
vi) number of approved persons in client name
vii) assets under administration in client name

While there has been discussion by Fund Companies on the topic of investors receiving lower MERS or new classes of funds as a result of cost savings, are MERs really guaranteed to come down? While this may ultimately become a benefit to consumers, we respectfully submit that it is our opinion that investors do not generally see MERs as a priority, and do so only when fund performance is poor.

Regardless, the act of bringing down MERs in relation to the cost savings to the funds does not remedy the problem of the financial burden being shifted to the Dealers. Therefore, it is the Dealers who would be funding lower MERs to consumers at their own expense.

In addition to the further analysis of current Dealer infrastructures and client name transactions in the industry, we strongly submit that a Cost Benefit Analysis should be published and reviewed before the industry can be asked to agree on the Recommendation. As with any quantitative approach, Dealers cannot be expected to evaluate or agree to proposals unless they do so on the basis of an informed decision.

c) Bankruptcy and Insolvency Act and MFDA Investor Protection Corporation

The DICWG is of the view that industry's agreement on the Document Agreement recommendation must be contingent on the LCIWG/CNWG's conclusive findings on the impact to investors under the Bankruptcy and Insolvency Act. These findings must be published and reviewed before the industry can be asked to agree on the Document Agreements Recommendation.

The RTPWG White Paper Addendum Appendix 1 – Bankruptcy and Insolvency Act determinations currently indicates "TBD" status, no action has been assigned to this item, and no milestone date has been considered. The DICWG feel that it is crucial to determine the impact of this issue on investors prior to any implementation.

d) New Investor Disclosure

The DICWG has serious concerns regarding the New Investor Disclosure for the following reasons:

i) The proposed statements about Dealer versus Fund Company responsibility are likely to be viewed as inflammatory by Dealers;
ii) The Dealer is to state that it assumes responsibility for all transactions, this infers that the Dealer was not responsible for transactions prior to this disclosure;
iii) It also infers that the Fund Company takes no responsibility for transactions; and
iv) It also does not adequately address Fund Company errors, delays, and omissions.

The DICWG submits that the New Investor Disclosure will result in client confusion, specifically in the explanation of the shift in liability from the client and Fund Company to the Dealer. Record keeping becomes identical to that of a nominee platform, and puts the Client Name Dealer in the role of a Nominee Dealer. Compounding this problem is the unresolved issue regarding the Bankruptcy and Insolvency Act and MFDA Investor Protection and the disclosure required for this critical point. The end result will be that "client name" will exist in name only.

The DICWG is of the view that legal opinions on behalf of our firms would likely be required in order to analyze the impact of the new Investor Disclosure on our firms' liability in addition to the ability to maintain financial bonding and insurance coverage.

e) KYC Investor Disclosure

The implementation of the KYC Investor Disclosure will result in increased costs since Dealers will each be required to create new KYC Forms to incorporate the Investor Disclosure. An additional problem will be ensuring a standard form of disclosure to investors, unless prescribed by the industry or regulators. The legal impact to both Fund Companies and Dealers is uncertain if Dealers do not incorporate identical standards and forms of disclosure.

This raises the question of who will be responsible for tracking Investor Disclosures, Fund Companies or Dealers?

i) Signed disclosures received/not received
ii) Trades – proceed/not proceed without signature/Limited Authorization
iii) How will exceptions be treated (i.e. Investor doesn't sign disclosure)? Do Investors then waive their right to expect STP trading and assume any subsequent market losses? Is this to be acknowledged by the Investor in the disclosure form?
iv) What is the business process/system for exceptions?
v) Costs of building sophisticated tracking for Investor Disclosures – Fund Companies assume? Dealers assume on top of all other new costs for Document Agreements?

f) MFDA/CSA Minimum Insurance Requirements

The Recommendations suggest that the Fund Companies will likely require higher insurance to be carried by Dealers in order to give Fund Companies a comfort level. This will result in higher costs to the Dealer in terms of higher premiums and associated compliance costs.

1.2.3 Money Movement

The Recommendations consider two options with respect to Money Movement

Option 1 – Direct to the Fund Companies

The impact of this option implies multiple Fund Companies each creating redundant banking retrieval processes, systems, etc. This would appear to compound the costs to the industry and result in numerous solutions being implemented by the multiple Fund Companies.

Option 2 – Routed via FundSERV to CPA LVTS

This is suggested as a better solution of the two in order to control redundancies, costs, etc.

Dealer Infrastructure Requirements

The Recommendation does not provide for an end-to-end electronic solution from Advisor, to Dealer, to Fund Company. It requires manual delivery of paper void cheque to the Dealer. The Dealer is then required to perform manual intervention to perform data entry to be passed to the Fund Companies.

This Money Movement recommendation does not meet the STP objectives as set out in the RTPWG White Paper, Section 1.0 Purpose:

" Industry-wide STP means seamlessly passing financial information electronically:

i) on a timely, accurate, system-to-system basis

ii) to all parties in the end-to end securities transaction chain
iii) without manual handling or redundant processing"

The DICWG is concerned that this Money Movement recommendation will not meet the STP objectives as set out in the RTPWG White Paper, Section 6.1 Subcommittee Mandates – Client Name:

"To determine and recommend solutions to address issues that:

i) impede the timely and accurate electronic processing of transactions
ii) enable information to pass seamlessly between distributors and fund companies"

This recommendation shifts all effort, infrastructure requirements, liability, and exposure from the Fund Companies to Dealers. Subsequently, Dealers take on the financial burden of the costs associated with these new activities and responsibilities, including:

i) Administration, staff, data entry of banking information
ii) Systems development
iii) Document imaging/storage
iv) Human resources, staff, training

v) Legal and Compliance – Money Laundering, Privacy Laws, etc.

Appendix 1, Page 6 states that the intent is that Fund Companies have the "ability to rely on electronically transmitted banking information without:

i) receiving the client's direct authorization, or
ii) verifying with the client's bank "

The DICWG has the following concerns and comments relating to this interpretation: Why would a lower standard apply to Dealers in comparison to Fund Companies? Fund Companies can rely on electronically transmitted banking information, but Dealers may only rely on paper void cheques? We are concerned that this does not meet the requirements of Money Laundering Legislation and the new Privacy Act. If compliance to Money Laundering requirements can be achieved, then the DICWG strongly recommends that an end-to-end electronic solution be employed, since all parties, including the Dealer, could rely on the electronically transmitted banking information without receiving the client's direct authorization or bank verification

Fund Company and FundSERV commitment towards the development of proper edits must be guaranteed before Dealers can agree to assume responsibility and liability for the proposed Money Movement solutions. Edits currently do not exist in order to perform a parity check to confirm whether the bank/branch account is correct. Therefore, deposits and withdrawals from the wrong client's account occur under current circumstances. However, liability for such errors would fall to the Dealer, even though they are not the party directly interacting with the financial institutions electronically. Furthermore, since these are the financial transactions of investors, transaction amounts can be significant. This would be huge exposure for the Dealers to assume, without the proper edits and controls.

Industry commitment to work towards improved CPA clearing processes would also be expected by Dealers before they can agree to assume responsibility and liability for the proposed Money Movement solutions. Currently, the CPA clearing process is not congruent with a T+1/STP model. Today, Dealers can wait up to five full days before they know about an NSF situation.

This exposure to the Dealers' Trust Accounts is significant, particularly given the size of the financial transactions of investors. We submit that the harmonization of the CPA clearing process to T+1/STP be set as the highest of priorities for industry, and recommend that FundSERV play a leading role. Dealers will not be inclined to agree with the Money Movement Recommendations without commitment to this initiative since they will have no other choice but to demand certified cheques, thus resulting in poorer service to their clients. Dealers will demand to know immediately if funds will clear and it is necessary for CPA clearing processes to change in order to make this happen.

1.2.4 Commission and Trailer Fee Payments

Appendix 1, Page 8 – Potential Best Practices and Standards: makes the recommendation that all Dealers should use N$M, and absorb the associated costs, to accept commission and trailer fee payments.

This recommendation appears to be entirely out of scope since commission and trailer payments are not:

i) retail trades
ii) subject to the settlement cycles of securities trades or the regulatory requirements governing settlement cycles
iii) a relevant factor for achieving STP objectives to "shorten the settlement cycle to the day following trade date (T+1)" as stated in the RTPWG White Paper, Section 1 – Purpose

While we agree that commissions and trailers result from retail trades, they are not in of themselves retail trades or subject to the retail trade settlement cycles as set by the securities regulators.

We also respectfully point out that N$M is not a viable option for those dealer firms who cannot meet the substantial capital requirements of the Canadian Financial Institutions for LVTS. Those dealer firms that can meet the capital requirements are Level 3 and 4 MFDA members and IDA members, operate a trust account, settle trades "net", and retain the commissions at source. It can be anticipated that Level 2 MFDA members and other dealers who do not operate a trust account will certainly not be in a position to meet the capital requirements of N$M, however, they would make up the majority of dealers not receiving commissions and trailers electronically.

Lastly on this point, although the response to these inquiries by the CCMA Information Session Panel on Wednesday, October 29th pointed to "risk of fraud" as the justification for inclusion into scope, we respectfully submit that the reasoning is perhaps far reaching and to the benefit of the Fund Companies who will benefit from cost savings.

1.2.5 Dealer Recommendations

a) Limited Authorization Forms

A high percentage of documents currently being sent by Dealers to Fund Companies are Limited Authorization Forms ("LA"). Fund Companies currently require physical LA documents for each and every trade that would require client signature. This practice was developed by the Fund Companies during the development of the LA because they did not have the ability to accept the LA once, store details of the LA on their systems, and then proceed with all trades going forward based on the LA being received.

Although the principle of sending the LA once to the Fund Companies at account opening and then proceeding with all trades thereafter was proposed during the creation of the LA, the Fund Companies rejected the concept.

The DICWG respectfully submits that Fund Companies should adopt the principle of receiving an LA once at account opening and tracking it on their system, rather than requiring a physical LA for each and every order that would require client signature.

b) Electronic Documents

The Client Name Working Group included the concept of Electronic Documents in its original analysis which would achieve all of the same objectives as Document Agreements, however, documentation would be stored in a "centralized location/depository" rather than by each and every Dealer firm.

The DICWG believes the benefits to Electronic Documents would be:

i) all industry parties would utilize the same infrastructure, redundancy from multiple Dealers each creating Document Agreement infrastructures would be eliminated;
ii) costs to the industry as a whole would be minimized rather than compounded, one infrastructure versus multiple infrastructures to be built ;
iii) compliance to standards, policies, and procedures would be ensured.

The DICWG strongly suggests that further assessment of Electronic Documents be conducted with the focus on adopting the centralized documents approach, and that FundSERV play a leading role. The impact of privacy laws on centralized documents regime must be considered.

c) Fund Company Order Settlement/Match

Both the Document Agreement and Electronic Documents Recommendations have been centered on the basis that the Fund Companies would no longer receive trades in physical form. However, we submit that the trades need not be sent in physical form, but settlement could be sent in physical form.

The Document Agreement could be re-worked as follows:

i) Dealer enters trades electronically by wire order;
ii) Dealer sends electronic physical settlement/fax to the Fund Company on T+1;

iii) Fund Company matches trade to settlement on T+1;
iv) Dealer sends original physical documents to the Fund Company thereafter, per parameters to be defined.

This recommendation would have the least amount of impact on industry participants. Shifts in activities, responsibilities, and liabilities would not be required since the documents would continue to reside at the Fund Companies.