



THE INVESTMENT FUNDS INSTITUTE OF CANADA
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

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January 25, 2002

Mr. Douglas M. Hyndman
Canadian Securities Administrators
C/o British Columbia Securities Commission
P.O. Box 10142 – Pacific Centre
702 West Georgia Street
Vancouver B.C.
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Dear Doug

RE: National Registration Database (NRD)

Thank you for your letter of September 21, 2001 in which you sought to address the concerns of our members respecting the implementation and user costs of the NRD.

We would like to address the cost/benefit analysis set out in your letter by reiterating that the expenses associated with the NRD will be disproportionately borne by mutual fund dealers. Our members now recognize that these costs will be onerous as they coincide with mutual fund dealers also having to bear the significant start-up costs of mandatory membership in the Mutual Fund Dealers Association ("MFDA").

Industry Input in the Development of the NRD

The expense of the NRD has been incurred on behalf of our membership but without significant consultation with them. Our members have had no meaningful opportunity to consider the value or necessity of the NRD inputs and have thus had no chance to control the costs that they are now presented with. Our members, without having had the opportunity for substantive comment on the development of the NRD, are now effectively being presented with its bill and expected to absorb a significant proportion of its up-front costs.

We continue to believe that the concerns of our members with respect to the NRD have manifested themselves as a result of the failure to solicit their input at the preliminary stages of this inquiry.

Industry Support for the NRD

The study of the benefits of the NRD (National Registration Database: A Study of Economic Benefits to the Financial Services Industry) (“the study”) undertaken by the Canadian Securities Administrators (“CSA”) highlights the positive anticipated cost and resource benefits of the NRD to our members. However, to be properly understood, this apparent endorsement by the industry, including our members, must be appropriately qualified and considered in light of the particular methodology used to present survey responses.

Respondents were asked to compare the anticipated features of the NRD to the present registration process, with a positive value signifying enhanced efficiency and/or cost savings over the present process and a zero value indicating no improvement from the present method. These values were taken and combined so that an “average benefit value” per feature was arrived at. We wish to note that combining response values in this manner (as opposed to showing negative responses individually) is problematic insofar as it obscures and thus can misrepresent instances where survey respondents felt that particular features of the NRD would be of no benefit.

Securities Commissions as Users of the NRD

The industry continues to believe that the CSA members will be the primary beneficiaries of the NRD through significantly reduced costs for data input and enhanced data quality. It is for this reason that we question on behalf of our members, why the CSA members have not undertaken to directly bear any of the up-front funding costs associated with the NRD.

If the NRD is capable of introducing the efficiencies that are claimed by the CSA, it will impact the operations of both mutual fund dealers and the securities commissions as two distinct classes of users.

Mutual fund dealers who use the NRD to submit applications for registration may benefit through a simplification of some of their registration processes. However, this contingent benefit can be realized only to the extent that the NRD replaces the paper-based process with a web-based system in a manner that is more efficient and cost-effective. Any advantage conveyed by the NRD to our members will depend upon its ability to integrate with their existing registration process without duplication; avoiding the introduction of its own cost and resource inefficiencies while also avoiding the provision of functions that impose cost burdens but add no practical benefit. In contrast, the implementation of the NRD will allow the CSA members to realize a number of concrete benefits through the introduction of an electronic registration system that will facilitate the efficient processing of registration applications while serving as a centralized repository of registrant records.

TO: Mr. D.M. Hyndman
RE: National Registration Database (NRD)
Date: January 25, 2002
Page 3 of 5

In addition to these advantages, the NRD will not permit a mutual fund dealer to submit a registration application if key fields are incompletely filled in or otherwise accidentally left unpopulated. This feature of the NRD will relieve commission staff of the requirement to review applications for these types of deficiencies as this administrative work will be shifted to the staff of mutual fund dealers.

Taking these factors into consideration, we continue to think it reasonable that the CSA members should bear the up-front implementation expenses of the NRD in due proportion to the preponderance of time, cost and resource allocation benefits that will accrue to them rather than to the industry.

Imposition of NRD Costs and Mandatory Membership in the MFDA

As you are aware, MFDA is now mandatory for almost all of our dealer members. Mandatory membership introduces significant additional costs through the imposition of membership fees, anticipated compulsory participation in the MFDA's Contingency Fund and the increased expenditures associated with compliance with MFDA requirements.

Mandatory participation in the NRD and its associated fee structure thus comes at a time when the cost burden of regulatory compliance to our industry has already been significantly increased. These costs, irrespective of their source and value, are all borne by the same parties and categorized broadly as regulatory expenditures. We continue to believe that the overall costs of regulation are a legitimate concern on the part of our industry and that this issue therefore warrants due consideration and recognition in the development of the NRD funding model.

Fee Reductions

Your letter addresses the issue of operating costs faced by our industry as disparate elements (i.e. various costs and fees are considered individually and not as they impact upon our members in aggregate). As we have noted, the fact that our members will bear the brunt of MFDA start up costs as a consequence of mandatory MFDA membership is ignored in the letter.

Some securities commissions have proposed a reduction in their regulatory filing fees and we have been advised that these fee reductions should help to offset the NRD costs incurred by our members.

As you are aware, British Columbia recently announced reductions in its regulatory filing fees. British Columbia Securities Commission Notice 2001/80 *Temporary Fee Reductions* sets out that this waiver of the dealer registration fee for all MFDA members came into effect on January 1, 2002 and will last for a period of eight years.

We were hopeful that the other regulators would be amenable to the adoption of similar initiatives. Accordingly, we wrote to the securities commissions of Ontario, Alberta, Saskatchewan and Nova Scotia, having selected them on the basis of being jurisdictions that recognize the MFDA. We suggested that it would be most appropriate for them to follow the example of British Columbia and to implement reductions in their dealer registration fees for MFDA members. However, the Alberta Securities Commission has indicated that it is not contemplating the implementation of fee reductions at this time and we have yet to receive responses from the remaining three securities commissions.

While we are encouraged by the action taken in British Columbia we note that the fee waivers that they have adopted are temporary, while the costs of using the NRD will leave our members with increased expenses on an ongoing basis.

Thus the reality faced by our members remains unchanged and they will have to disproportionately bear the up-front costs of the NRD and manage them along with many other regulatory expenses while they wait for fee reductions from the other securities commissions.

In addition, it remains possible that reductions in regulatory filing fees will be of less significance than originally expected when they are finally put into effect and will be more than outweighed by the overall costs incurred by our members through the implementation and ongoing use of the NRD.

We have reviewed the NRD user costs that are set out in the Proposed Multilateral Instrument 31-102 National Registration Database (NRD), as was published on December 14, 2001. We have worked through some general examples that apply these costs to a hypothetical and average sized firm so as to determine and compare on an applied cost basis the net impact of actual annual NRD costs against potential savings resulting from reductions in regulatory filing fees.

On the basis of our preliminary and conservative estimates we could not find overall cost savings when current fee reductions were compared against NRD costs in conjunction with the aggregated and increased regulatory compliance expenditures expenses that will be borne by our members.

Allowing the CSA members to propose future filing fee reductions instead of assuming the up-front costs of the NRD permits the CSA to defer, at the expense of our members, acknowledgment of the immediate cost and resource benefits that the NRD will confer upon them. To our members this appears inappropriate given that many of the CSA members are currently experiencing budgetary surpluses.

It is our hope that you will consider the concerns that we have raised on behalf of our industry and initiate a process to ameliorate the problems that we have identified.

TO: Mr. D.M. Hyndman
RE: National Registration Database (NRD)
Date: January 25, 2002
Page 5 of 5

We would, in any event, welcome the opportunity to meet with you and to discuss our concerns further.

Sincerely

THE INVESTMENT FUNDS INSTITUTE OF CANADA

“ORIGINAL SIGNED BY T.A. HOCKIN”

Honourable Thomas A. Hockin P.C.
President and Chief Executive Officer

Cc:

IFIC Executive Committee
Chairs - Canadian Securities Administrators