PORTFOLIO STRATEGIES

June 24, 2022

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
Office of the Superintendent of Securities, Digital Government and Services, Newfoundland and Labrador
Nova Scotia Securities Commission
Prince Edward Island Office of the Superintendent of Securities
Office of the Yukon Superintendent of Securities
Office of the Superintendent of Securities, Northwest Territories
Office of the Superintendent of Securities, Nunavut

Care of:

The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
comments@osc.gov.on.ca

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640 boulevard Laurier, bureau 400
Québec, QC G1V 5C1
consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames,

Re: CSA Notice and Request for Comment 25-304 – Application for Recognition of New Self-Regulatory Organization

On behalf of Portfolio Strategies Corporation, we are pleased to provide our comments regarding the Canadian Securities Administrators ("CSA") Notice and Request for Comment 25-304 on the Application for Recognition of New Self-Regulatory Organization ("New SRO").

ABOUT PSC

Portfolio Strategies Corporation ("PSC") is a Calgary-based dealer, member of the Mutual Fund Dealers Association of Canada, registered mutual fund dealer and exempt market dealer in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador, and the Northwest Territories, and investment fund manager in Alberta and Ontario.

COMMENTS

We appreciate the work that the CSA is doing to consolidate the two SROs, thus allowing dealers the option of registering as a mutual fund dealer only, or as a dual registered investment dealer that can register individuals as Registered Representatives dealing in mutual funds only. The current structure of having to operate stand-alone firms separately under the MFDA and IIROC SROs is highly inefficient, and while the CSA appears to recognize this inefficiency , some of the proposals act as roadblocks to operating a dual registered investment dealer.

PROFICIENCY

For many years now we have been told that there would be no new proficiency requirements for dealing representatives dealing in mutual funds only. While we acknowledge that we have not had time to review the several hundred pages of the various documents sent out on May 12th, at a high level view it would appear that RRs dealing in mutual funds only at an investment dealer or dual registered firm, would be required to complete the Conduct and Practices Handbook Course, and potentially be subject to 90-day training programs. Rule 2600 (Part C – Transition provisions, 2631. Transition of individuals dealing in mutual funds only) in the "Corporation Investment Dealer and Partially Consolidated Rules" appears to say that; and webinars this month from the MFDA and IIROC confirm that this is their understanding as well. If existing dealers make the business decision to register as investment dealers, but also have "Registered Representatives dealing in mutual funds only," all of their DRs from their existing

mutual fund dealer will be required to pass the Conduct and Practices Handbook Course(CPH). A sound business decision to run a single dealer platform is in direct conflict with the wishes of its dealing representatives (285 individuals at our firm) who will be forced to take the CPH, which costs about $900, takes 40-50 hours of study, and has very little content geared towards mutual fund only DRs. This is not “progress” by the CSA, in our opinion.

When both SROs were asked about the thought process behind this, we were told that the CPH has some content on “ethics.” This topic is already addressed in the MFDA continuing education requirements, and compiling sufficient hours in accredited ethics courses would be considerably less costly and onerous than a CPH course that is designed for RRs that sell a far more extensive product shelf than mutual funds or ETFs only.

CARRYING DEALER ARRANGEMENTS

We appreciate that the CSA will allow mutual fund dealers to be Introducing Dealers to investment dealers acting as Carrying Dealers, for a segment of their business such as ETFs and government bonds. We had looked into such an arrangement a couple of years ago for our ETF business, but were told that current IIROC rules prevented Carrying Dealers from doing business with MFDA regulated mutual fund dealers. This proposed rule change will definitely make it easier for mutual fund dealers to offer ETFs to their retail clients that might be too small for most IIROC member firms.

The CSA needs to clearly define what constitutes “significant” business that will necessitate mutual fund dealers to register as investment dealers. What might start out as “insignificant” ETF sales could become “significant” ETF sales in a matter of years. Perhaps it makes more sense to eliminate this notion of “significant” sales or assets, and shift the focus on the product distributed, ETFs or bonds, regardless of the magnitude of sales. If mutual fund dealers can do this business today under an existing omnibus account, within CSA, MFDA, IIROC rules, why force a dealer registration change entirely to an investment dealer? We would like this operating structure to be made available immediately, rather that wait until 2023 or 2024. From a public interest standpoint, mutual fund dealer clients are demanding access to ETFs now, and potential referral arrangements to IIROC firms for this business is not at all practical.

CONTINUING EDUCATION

IIROC has had a CE Cycle system in place for many years, and it works. The MFDA has only just launched their CE program late last year, but there appears to be some growing pains in approving accredited CE course providers, or getting approved courses on their MFDA CERTS database network. This continues to be a major problem even today. We agree that the new SRO should maintain both programs for the time being, but an eventual standalone replacement CE program should still take into account requisite CE content applicable to each DR registration category – mutual funds only versus RRs offering all securities. Topics common to both registration types, such as ethics, privacy legislation, anti-money laundering etc., should

be accommodated rather than have them approved or accredited twice – once for a mutual fund dealer specific CE program, and a second time for an investment dealer specific CE program. As stated earlier in our comment letter, we strongly disagree with the notion that an IIROC specific course such as the "Conduct and Practices Handbook Course" be thrust upon mutual fund only DRs as a lazy stop gap measure to produce ethics content – as if it does not exist already in the MFDA CE cycle requirements. It does exist.

DEALING REPRESENTATIVE AND DEALER REGISTRATION

In the CSA publication of draft New SRO rules it is stated that the CSA will continue to register all mutual fund dealers and mutual fund only DRs, whereas IIROC will continue to register Investment Dealers and Dealing Representatives (Investment Dealer). We feel that a single national registrar would be more appropriate because we continue to face challenges with the conflicting opinions or demands of the various CSA members. For example, a DR bankruptcy from twenty or thirty years ago is not an issue for DR registration in most provinces, but it is in Ontario. A plan of arrangement, driven by a divorce settlement that inflicts significant financial harm to an existing registrant, is not uncommon these days. Western CSA members will allow such individuals to add a jurisdiction to service or solicit retail client business, but Ontario absolutely refuses to register them under any circumstance; as if it is their duty to protect Ontario clients from a twenty year industry veteran that has never had any regulatory issues – other than a financially messy divorce. Does the OSC feel registrants should declare bankruptcy and eventually get discharged, as a preferred path over agreeing to a "plan of arrangement"? Is this path less work for OSC registration? We don't feel that the public interest is being served by Ontario's "unique to them" stance.

A newly created national registrar could employ existing CSA and IIROC staff for some continuity and expertise, but this registrar should deal with both dealer types, and DR registrations (mutual fund only and dealing representatives).

Finally, if dealers elect to change their registration category, a bulk move of all DRs should be made possible, as opposed to moving one individual at a time from mutual fund dealer to an investment dealer, or vice versa.

DIRECTED COMMISSIONS

While we applaud the CSAs decision to continue to allow mutual fund dealing representatives to direct their commissions to their corporations, we feel that this opportunity should be extended to registered representatives at investment dealers as well. These RRs will often direct their insurance commissions to their corporation, so why not permit them to direct their securities related commissions to these same corporations.

We understand that "directed commissions" are not a high priority for the CSA during this SRO Consolidation process, and that a category of Incorporated Salesperson is being considered (which we are highly supportive of) but the two are quite different and need not be combined

into a single initiative. Both options should be pursued but it seems more likely that permitting "directed commissions" for RRs will be a much easier approval process than creating a new registration category of "incorporated salesperson" that all CSA members can move forward with.

CONCLUSION

We are generally supportive of the New SRO-Interim Rules but have some concerns about the eventual launch date of the consolidated SRO. While a rewrite of the rule book is required to accommodate mutual fund dealers and investment dealers, it would appear that the primary focus in 2022 is a large volume of legal work on the consolidated rules, which pushes much needed changes that will benefit consumers and registrants further into the future, likely late 2023 and possibly 2024.

There are significant efficiencies gained for firms that want to have dual registration. The ability to integrate compliance, finance, back office, and supervisory systems will go a long way to reducing the operating costs and compliance burden, which will benefit consumers in the end through reduced trustee fees, commissions, and administration costs. Rather than wait another one or two years, now that the CSA members appear to be on the same page with these changes, mutual fund dealers should be permitted to introduce business to IIROC Carrying Dealers right away, with or without an exemption process to do so. Further, IIROC member firms should be permitted to register mutual fund only DRs without unnecessary, duplicative proficiency requirements like the Conduct and Practices Handbook Course. We can't think of any sound business reasons to postpone this progressive step until all of the legal work is done on the consolidated rule book.

We look forward to the launch of the New SRO, with options to move on the Carrying Dealer, and mutual fund only dealing representatives options, in the coming months.

If you would like to further discussions on the points we have raised, please contact me at markkent@portfoliostrategies.ca.

Yours Truly,

Mark S. Kent

Mark S. Kent, CFA, CLU
President and CEO