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March 22, 2010

Jason Bennett ✓
Corporate Secretary
Mutual Fund Dealers Association of Canada
121 King Street West
Suite 1000
Toronto, Ontario
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-and-

Mark Wang
Manager, Legal Services
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142
Pacific Centre
Vancouver, British Columbia
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Dear Sirs/Mesdames:

Re: Request for Comments – proposed consequential amendments to MFDA Rules resulting from National Instrument 31-103 *Registration Requirements and Exemptions*

We are writing in connection with the proposed amendments to the MFDA's rules (Rules) which were published for comment on December 23, 2009.

Quadrus Investment Services Ltd. ("Quadrus") is one of the largest mutual fund dealers in Canada with more than 3400 registered investment representatives. It is the exclusive mutual fund dealer for London Life Insurance Company and preferred mutual fund dealer for Gold Key investment representatives of The Great-West Life Assurance Company.

We have reviewed the proposed Rules and have deep concerns with respect to the expansion of the jurisdiction of securities regulators into non-securities fields through the proposed inclusion of non-securities referrals in the Rules. We understand that the MFDA is required to amend its rules in order to comply with the provisions of National Instrument 31-103. However, we also note that when this National Instrument was passed in the fall of 2009, it was presented as a harmonizing initiative, with the expectation of no material changes to how the industry actually operates. It was

presented as a “*registration reform*” initiative, and it is our belief that the bulk of the industry reviewed it in that light. As a result, we believe that the potentially serious implications of expanding regulatory jurisdiction into non-securities areas (e.g.: referrals to lawyers, accountants and other service professionals) was not properly addressed.

Our concerns are:

- (1) the expansion of regulatory authority into non-securities areas, specifically with respect to dual-licensed representatives;
- (2) the inability of dealers to do proper due diligence over non-financial industries; and
- (3) the lack of clarity and potentially broad application of “indirect compensation”.

(1) Regulatory Expansion:

2.4.2(b)(i) prohibits Approved Persons from participating in “any arrangement in which a Member or Approved Person agrees to pay or receive a referral fee” unless the Member Firm is party to it, does reasonable diligence on the other party, and processes all referral fees. This is a very large expansion from the previous rule, which was limited to “securities related referrals”. “Securities related referrals” was an appropriate limitation, given that dealers have some knowledge of the area, and this is actually what securities regulators are expected to regulate. We are very concerned about this expansion of regulatory authority into non-securities areas. We are not certain what problem this expansion was intended to address. We are not aware of any studies that were done to validate the need for such an aggressive change. Certainly we are not aware of any issues in this regard from our own operations, and are not aware of a general problem in the industry. As such, this change – buried in “registration reform” – seems unnecessary and excessive.

In addition, the majority of Quadrus Approved Persons are dually licensed for both mutual funds and life insurance, however not all of their clients have purchased or intend to purchase mutual funds. In some cases clients only do insurance business with the Approved Person. We do not believe that a mutual fund dealer should oversee an Approved Person’s dealings with his or her life insurance clients, but this new rule is so broadly worded that it may require that we do so.

(2) Reasonable Diligence Requirement:

2.4.2(c) requires that Member Firms take reasonable steps to satisfy themselves that the other party to the referral arrangement has the appropriate qualifications and registrations to provide the services. We are concerned that this requirement forces mutual fund dealers to oversee activities that they do not, and should not be expected to have expertise in. We feel this exposes Member Firms to an unreasonable level of risk by making the Member a party to the arrangement and requiring it to pass judgment on the person or company being referred to. Dealers can reasonably be expected to have the ability to review and assess “securities related referrals” – that is our business. However we should

not be expected to review and assess lawyers, accountants, real estate agents, mortgage brokers, used car salesmen and a myriad of other service professionals. We are concerned that this requirement will result in many dealers simply banning referrals of any kind. We do not think that this is a positive development for our clients, who often look to their local Approved Person as a knowledgeable source of referral information in the community, and who – because of the nature of his or her job – actually should have useful information on other service providers in the area.

We are also very concerned that “banning” such referrals will lead to them going underground, and it is not clear what the MFDA or Securities Regulators expect of dealers in policing these situations. Dealers have no way of easily determining whether an Approved Person has made a compensated referral in violation of its ban. We are concerned that this will impose an almost impossible compliance burden on dealers, with little or no public policy rationale for it.

(3) “Indirect Compensation”:

The definition of “referral fee” in section 2.4.2(a)(iii) includes “any form of compensation, direct or indirect”. This is an all inclusive approach, but the vagueness leaves considerable room for interpretation. For example, would tickets to a sporting event fall within the scope of “indirect compensation”? Would a gift at Christmas? If so, we do not know how to comply with the requirement to record such compensation on Quadrus’s books and records as per 2.4.2(b)(iii).

Please provide clarification in regard to the definition of indirect compensation and details on how the MFDA’s expects dealers to account for non-monetary arrangements.

General Comments:

As noted earlier, given the vague, general and overly expansive application of this Rule, we find it very difficult to determine how a dealer can authorize referrals and still comply with it without taking on an excessive amount of potential liability. It appears that the regulatory intention is to prohibit compensated referral arrangements, including those that are outside the securities realm. If not the intention of the regulators, we believe that this will be the likely result once dealers become aware of the implications of the amended Rule and this provision of National Instrument 31-103.

We are not aware of any specific concerns about referral arrangements, nor are we aware of any studies, surveys or any other research supporting a need for this radical change. We are very concerned about the unintended consequences that could flow from such a change, and suggest that the MFDA could benefit from additional consultation and consideration regarding those consequences.

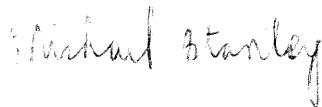
We believe that the industry was not aware of the implications of this section of the National Instrument when it was passed, because it was presented as a non-material harmonization initiative, and not a material change in dealer operations. Given all these

concerns, we strongly recommend that more time be taken and more detailed consultation be engaged in before passing the changes.

The exposure to liability and the resources needed to ensure proper supervision far outweigh any monetary benefits that accrue to Member Firms or Approved Persons. The Rule asks dealers to become enforcement tools over businesses that they are not knowledgeable in. As dealers wrestle with the real world need for non-financial referral arrangements and the compliance obligations imposed by the amended Rule, we suspect that the MFDA and the CSA may receive a large number of requests for exemptive relief. It may be better to take the time now to consider whether a blanket exemptive relief order from the CSA may be appropriate to clarify and limit the application of this requirement, before imposing MFDA rule amendments.

Quadrus thanks the MFDA for the opportunity to provide our comments on the revisions to the proposed amendments. Feel free to contact the undersigned should you have any questions about this submission.

Sincerely,

A handwritten signature in cursive script that reads "Michael Stanley".

Michael Stanley
Vice President, Chief Operating Officer
Quadrus Investment Services Ltd.