

July 23, 2009

Via email transmission
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Re: Response to Proposed Amendments to MFDA Rule 2.2 (Client Account), Policy No.2 *Minimum Standards for Account Supervision*, Rule 2.8 (Client Communications) and Rule 5.3 (Client Reporting)

Dear Sirs / Madams:

PFSL Investments Canada Ltd. (“PFSL” or “we”) appreciates the opportunity to provide comments in response to the Proposed Amendments to MFDA Rule 2.2 (Client Account), Policy No.2 *Minimum Standards for Account Supervision*, Rule 2.8 (Client Communications) and Rule 5.3 (Client Reporting) (“Proposed Amendments”). By taking the opinions of its Members into consideration, the MFDA is taking a positive approach to the development of effective regulations.

As we approach the conclusion of the processes to include Member input in the implementation of the Client Relationship Model, the body of our letter concentrates on the issues of most concern to us. Issues of lesser concern are in the Appendix.

PFSL provides a unique and valued service in Canada’s mutual fund industry. Unlike the many market participants and Member firms who concentrate their efforts on servicing the country’s high-net worth markets, PFSL’s primary focus is on providing affordable investment options and access to financial services to middle-income families. We take pride in our ability to provide such families with much needed investment opportunities, which can be purchased with PACs for as low as \$25 per month. In this way, PFSL plays

an important role in providing a degree of financial stability and fostering a savings culture among some of Canada's more financially exposed families. The importance of servicing this particular market cannot be overstated, especially given the country's alarming – and rapidly increasing – low savings rate, levels of debt and financial distress.

We have assessed the Proposed Amendments and provided comments with a perspective from our experience working for and with Canada's middle-income families. We request that the MFDA consider the comments that follow not only with an appreciation for the difficulties and ever increasing regulatory costs associated with servicing this market, but also with an understanding of the challenges this market faces in finding affordable and effective investment options.

Effects of Increased Suitability Assessments Outside of Recognized Triggers

Under proposed 2.2.1(e)(iii), we do not believe that a suitability review of each and every account being reassigned is necessary, given that a dealer has not become aware of any changes in the client's KYC information or circumstances that would result in a different conclusion than was reached at the last trigger point. A change in representative does not cause accounts to become unsuitable. To add a documented suitability review as contemplated by 2.2.1(e)(iii) is unnecessary since it would simply duplicate the last suitability review that was conducted.

We agree that a representative assigned to a client file should still be required to familiarize him/herself with the file as contemplated by current Policy 2. If, during that process, the representative becomes aware of a material change in client circumstances, a suitability review would then properly be required under 2.2.1(e)(ii). If no changes are identified during a client file review, a suitability review is unnecessary.

We submit that Rule 2.2.1(c), (e)(i) and (e)(ii) represent the relevant trigger points for a suitability review – the time an order is placed/ recommendation is made, a transfer is processed, or if we become aware of a change in the client's circumstances. We therefore believe that proposed section 2.2.1(e)(iii) should be removed.

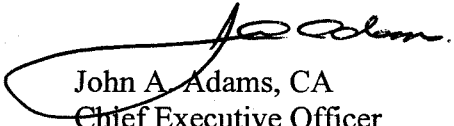
Reviews of Trading and Account Activities

PFSL believes that the aspects of the Proposed Amendments regarding reviews of trading and account activities addressed under sections dealing with Branch Office Supervision and Head Office Supervision can be simplified to become more effective and less confusing. Currently, Sections IV(2) and V(1) of Policy No. 2 include differing dollar-amount thresholds for the types of trading and account activities the branch manager is to review the following day. However, we believe that these reviews should be based on the level of risk associated with these activities, which is not necessarily related to the dollar amount or whether or not the trade was an initial or subsequent investment. In addition, the differing thresholds make these sections unnecessarily complex. As a result, we recommend that the thresholds be set at a common amount, perhaps \$10,000. We

believe this would streamline the requirements and ensure that the emphasis is squarely placed on the risks associated with the previous day's trading and account activities.

Once again, we appreciate the having the opportunity to participate in this comment process and we hope that you find our comments useful as the Proposed Amendments become finalized.

Yours Truly,



John A. Adams, CA
 Chief Executive Officer
 PFSL Investments Canada Ltd.
 (Original signed)

Encl. Appendix

Appendix

PFSL Response to Proposed Amendments to MFDA Rule 2.2 (Client Accounts) and MFDA Policy No. 2 Minimum Standards for Account Supervision

PROPOSED AMENDMENTS TO CLIENT ACCOUNTS (RULE 2.2)	PFSL COMMENTS
<p>2.2.1 "Know-Your-Client" Each Member and Approved Person shall use due diligence: (e) to ensure that the suitability of the investments within each client's account is assessed: (iii) by the Approved Person where there has been a change in the Approved Person responsible for the client's account at the Member;</p>	<p>Under proposed 2.2.1(e)(iii), we do not believe that a suitability review of each and every account being reassigned is necessary, given that a dealer has not become aware of any changes in the client's KYC information or circumstances that would result in a different conclusion than was reached at the last trigger point. A change representative does not cause accounts to become unsuitable. To add a documented suitability review as contemplated by 2.2.1(e)(iii) is unnecessary since it would simply duplicate the last suitability review that was conducted.</p>
<p>2.2.5 Relationship Disclosure For each new account opened, the Member shall provide written disclosure to the client: (e) defining the various terms with respect to the know-your-client information collected by the Member and describing how this information will be used in assessing investments in the account;</p>	<p>As currently worded, this may require an overly extensive description of KYC information and how that information is used. We suggest that this section be worded to require a plain-language disclosure of the importance of investment suitability and KYC information.</p>

PROPOSED AMENDMENTS TO MFDA POLICY NO. 2: MINIMUM STANDARDS FOR ACCOUNT SUPERVISION	PFSL COMMENTS
<p>Introduction Members that seek to adopt policies and procedures relating to branch and head office supervision or the allocation of supervisory activities that differ from those contained in this Policy must demonstrate that all of the principles and objectives of the minimum standards set out in this Policy have been properly satisfied. Further, any such alternative policies and procedures must adequately address the risk management issues of the Member and must be pre-approved by MFDA staff before implementation.</p>	<p>PFSL understands the rationale and principle supporting the requirement to attain MFDA approval prior to implementing alternative supervisory policies and procedures. However, we hope that in the event of market changes or innovation that the approval process be expeditious to enable investor needs to be met on a timely basis.</p>
<p>III. ASSESSING SUITABILITY OF INVESTMENTS AND LEVERAGING STRATEGIES 4. The Member's criteria for selecting trades for review, the inquiry and resolution process, supervisory documentation requirements, and the escalation and disciplinary process must be documented and clearly communicated to all registered salespersons and all relevant employees. Registered salespersons must be advised of the criteria the Member uses in assessing suitability, actions the Member will take when a trade has been flagged for review and appropriate options for resolution.</p>	<p>PFSL believes that providing details on supervisory and disciplinary processes and procedures could create unnecessary compliance risks. We feel that this certain aspects of this type of information should be viewed as key elements of the Members' compliance controls. Disclosing them could potentially lead to salespersons adjusting behavior in an effort to circumvent the controls.</p>
<p>7. Registered salespersons must maintain evidence of completion of all suitability assessments performed and any follow up action taken with respect to such assessments.</p>	<p>PFSL believes that this section and requirement would be more appropriately worded as the responsibility of the dealer and not the salesperson. We believe that it would be more effective to have dealer establish the processes and procedures for the retention and maintenance of this information.</p>
<p>V. BRANCH OFFICE SUPERVISION Daily Activity 2. The branch manager (or alternate) must review the previous day's trading for unsuitable trades and any other unusual trading activity using any convenient means. This review must include, at a minimum, all: <ul style="list-style-type: none"> - initial trades; - trades in exempt securities (excluding guaranteed investment certificates); - leveraged trades/leverage recommendations for open accounts; - trades over \$2,500 in moderate-high or high risk investments; - trades over \$5,000 in moderate or medium risk investments; - trades in accounts of family members of registered salespersons operating under a power of attorney in favour of the registered salesperson; and - trades and redemptions over \$10,000 in all other investments. For the purposes of this section, "trades" does not include redemptions except where specifically referenced.</p>	<p>PFSL believes that reviews of trading activity should be based primarily on the degree of risk associated with a given trade. In addition, if dollar amount thresholds are to be used, differences in those thresholds unnecessarily complicate the regulation. We therefore recommend that dollar amounts identified be made standardized.</p>
<p>Daily Activity 3. When reviewing redemptions, branch managers should seek to identify and assess: <ul style="list-style-type: none"> -the suitability of the redemption with regard to the composition of the remaining portfolio; -the impact and appropriateness of any redemption charges; -possible outside business activity where money may be leaving the Member for reinvestment into other potentially inappropriate or </p>	<p>Given that redemptions may occur without the representative's involvement, for example on client-name accounts, PFSL recommends that this section be reworded so that the branch manager is required to conduct the reviews only in instances where the representative has been directly involved.</p>

<p>unauthorized investments; -potential churning, including situations where redemption proceeds are being held on a temporary basis pending reinvestment.</p>	
<p>V. HEAD OFFICE SUPERVISION 1. In addition to the trading review criteria for branch managers, head office must conduct daily reviews of account activity which must include, at a minimum, all: – trades over \$5,000 in exempt securities (excluding guaranteed investment certificates), moderate-high or high risk investments, or leveraged trades/recommendations for open accounts; – trades and redemptions over \$10,000 in moderate or medium risk mutual funds; – trades over \$50,000 in all other investments (excluding money market funds). For the purposes of this section, “trades” does not include redemptions except where specifically referenced.</p>	<p>Similar to the position stated above, PFSL believes that if dollar amount thresholds are to be used, differences in those thresholds unnecessarily complicate the regulation. We therefore recommend that dollar amounts identified be made standardized.</p>
<p>VI. IDENTIFICATION OF TRENDS IN TRADING ACTIVITY 2. Head office supervisory review procedures must include, at a minimum, the following criteria: – a review of all accounts generating commissions greater than \$1,500 within the month; – a quarterly review of reports on assets under administration (“AUA”) comparing current AUA to AUA at the same time the prior year; – a quarterly review of commission reports for the previous 12 month period comparing commissions received in the current year to commissions received for the same period in the prior year.</p>	<p>PFSL believes that this section would benefit by including a clause allowing Members to utilize alternative methods and procedures that have been approved by the MFDA. In its current wording, this section is somewhat unnecessarily prescriptive and it is possible that some Members may have more complex and effective for finding and addressing these issues.</p>