



March 18, 2016

Marsha Gerhart
Vice-President, Member Regulation Policy
Investment Industry Regulatory Organization of Canada ("IIROC")
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Re: IIROC White Paper – Public Policy Implications of Changes to Rules Regarding Proficiency Upgrade Requirements on the IIROC Platform (the "Upgrade Proposals") and Directed Commissions to Corporations (the "Directed Commissions Proposal")

Dear Ms. Gerhart:

In response to the issues raised in the White Paper, Burgeonvest Bick Securities Limited ("BBSL") supports both the Upgrade Proposals and the Directed Commissions Proposal (collectively the "IIROC Proposals"). BBSL believes the IIROC Proposals are timely, reflecting current market conditions and the challenges facing the investment dealer community, and independent dealers in particular.

In terms of perspective, BBSL recognizes that investment dealers are not a homogenous universe defined by singular: dealer size, business models, capitalization, product and service offerings, and client target market focus. Consequently, it is hard to imagine an industry consensus in respect of the IIROC Proposals. BBSL's support of the IIROC Proposals is based on our unique mix of the aforementioned considerations. In particular, BBSL's support reflects the fit of the IIROC Proposals to BBSL's business model which includes:

- A Principal/Agent Model;
- Many BBSL Advisors are dually licensed to advise and sell both investments and insurance products; and
- Dually licensed investment and insurance Advisors are already permitted to direct insurance commissions to corporations.

Notwithstanding the lack of homogeneity among investment dealer size, business models, capitalization, product and service offerings, and client target market focus, BBSL respectfully submits it would not be in the best interests of clients and the dealer community to delay the IIROC Proposals awaiting unanimity among dealers.

In response to the questions in the White Paper, BBSL provides the following commentary:

1. Would you support the IROC Proposals as being in the public interest?

BBSL supports the IROC Proposals as being in the public interest. There are a number of reasons for this belief which include:

1.1 Upgrade Proposals

- The Upgrade Proposals improves and streamlines investor access to a wider variety of investment products and services.
- The Upgrade Proposals enhance the ability of industry participants to structure their businesses in a manner that provides flexibility to deliver services, while concurrently protecting investors in the context of current regulation and in the context of dynamically evolving regulations.
- The Upgrade Proposals enable industry participants to seek cost efficiencies in respect of compliance systems and operations systems whereby such cost efficiencies can be used to offset materially increased costs of regulation that have been introduced in recent years.

1.2 Directed Commissions Proposal

- The Directed Commissions Proposal levels the regulatory approach applied by different Self Regulatory Organizations (“SROs”) toward investment Advisor compensation, which in the past has created a compensation prejudice between MFDA and IROC regulated Advisors. BBSL perceives that an undifferentiated approach to compensation, regardless of which SRO is involved, is better aligned to the public interest.
- The Directed Commissions Proposal removes compensation considerations for Advisors in making their registration choices while serving clients. Such compensation choices have inherent potential conflict of interest. Removing such potential conflict of interest is in the public interest.
- IROC Rule 39 – Principal and Agent already prescribes relevant rules governing Agents’ conduct ensuring that the public is adequately protected in cases where historically non-conventional employment models are applied. BBSL’s belief that it is in the public interest to support the Directed Commissions Proposal and contemplates harmonization with IROC Rule 39 – Principal and Agent (Rule 39.3 to be amended). BBSL interprets that Rule 39 has sufficient measures to govern the implementation of directed commissions, should such proposal come to fruition.

2. What impact would the adoption of this proposal have on each of the following:

a. Investors

2.a.1 Upgrade Proposals

The Upgrade Proposals amount to increased choice for clients. Clients who previously would have dealt with a mutual funds only registered Advisor would enjoy new flexibility and convenience in respect of access to “nominee provided” products and services, as well as access to a broader selection of products and services that may not have been otherwise available at an MFDA dealer. Furthermore, such products and services may be accessed within a single firm – as a one stop advice and service option.

Significantly, the latter consideration of a single dealer providing investment products and services offers a greater ability to apply more consistent suitability supervision by a dealer to better protect client interests. Coincidentally, a single dealer option permits a greater holistic approach to advice that can be provided by Advisors.

It is not to say that the investing public should be forced into a single provider approach to investment advice. Clearly, the number of dealers a client wishes to utilize is a client choice. Rather, creating additional options for clients to make a single dealer choice is a positive adaptation in favour of the public interest and the IIROC White Paper is a positive step in that direction.

2.a.2 Directed Commissions Proposal

The Directed Commissions Proposal is less impactful on the public than the Upgrade Proposals, but nonetheless is in the public interest. The mere elimination of potential conflicts of interest related to compensation among different dealing representatives is more likely to foster a better alignment between clients and their Advisors.

b. Registered firms

2.b.1 Upgrade Proposals

Material increases in Regulatory Burden has been most impactful upon small and medium sized investment dealers. Such small and medium investment dealers have historically provided advice and service to small sized client accounts. These dealers are most in need of cost mitigation in order to continue to service the small sized client account market niche.

As already suggested in this letter, the Upgrade Proposals represent a potential opportunity to seek cost efficiencies in respect of compliance systems and operations systems whether a

dealer is among the smallest or largest firms. However, the impact of potential savings may be proportionately greatest for small and medium sized dealers. As a group, there is a strong need for such savings opportunities. The Upgrade Proposals represent a potential tangible opportunity to improve the health of the small to medium size IIROC dealer community.

The current health of the IIROC Dealer community is a matter of two concerns. One issue is the increasing cost burden arising primarily from increasing regulatory costs. The other issue is the revenue challenges in the existing environment.

Enabling small and medium sized IIROC firms to take advantage of potential recruitment possibilities with mutual fund Advisors as a potential revenue opportunity. Consequently, the Upgrade Proposals are viewed as a positive potential development for dealer revenue and for better potential cost management vis-à-vis increasing regulatory costs.

The ability for dealers to better manage their ability to finance enhanced compliance duties, we respectfully submit, is in the public interest.

2.b.2 Directed Commissions Proposal

While the Upgrade Proposals can be viewed as opening the door to potential opportunities, actual recruitment of mutual fund only Advisors (as discussed in 2.b.1) is dependent upon such mutual funds only Advisors determining that the IIROC regulatory platform is appealing. A positive recruitment outcome requires a more level regulatory playing field, which includes level compensation treatment; and hence the public interest need to support the Directed Commission Proposal from the perspective of social equity.

c. Registered individuals

2.c.1 Upgrade Proposals

The Upgrade Proposals no doubt provide for a simpler process for individual restricted dealing representatives to transfer to IIROC firms. Currently, a mutual funds only Advisor transferring to an IIROC firm must successfully complete a significant number of educational courses to become a non-restricted dealing representative. Even when such an Advisor does not intend to sell other investment products, he/she must put their registration with an IIROC member at risk, subject to completion of these educational courses. Such course requirements and associated successful completion risk is a deterrent to restricted dealing representatives to become non-restricted dealing representatives.

Permitting restricted dealing representatives to maintain their limited/restricted registration at an IIROC dealer removes the aforementioned deterrent. Concurrently, the IIROC limited registration option creates an opportunity for mutual fund only Advisors to better serve clients by offering broader services through other registered Advisors at their

IIROC dealer firm. Broader access to products and services for clients, we submit, is in the public interest.

2.c.2 Directed Commissions Proposal

Weighed against these public interest benefits described in 2.c.1 and the service benefits to clients is the practical issue that the IIROC platform needs to appeal to mutual funds only Advisors at a personal level. To be appealing there needs to be consistent regulatory treatment between SROs. Central to such level regulatory playing field is the consistent treatment of compensation.

Without integrated approvals for both the Directed Commissions Proposal coincidental with the Upgrade Proposals, individual registrants have to weigh the disadvantages IIROC places on its members and their Advisors compared to provision available under MFDA licensing, such as directed commissions.

d. Canadian regulatory and financial industry structure

2.d.1 Upgrade Proposals

By harmonizing the playing field between IIROC and MFDA dealers regulation will be more consistent between SROs. Beyond the fundamental value of regulation consistency, any further comments in respect of the impact on regulation from the Upgrade Proposals is highly speculative and BBSL does not wish to make speculative comments. However, we would add that, in general, harmonization as a principle is in the public interest.

It is difficult to predict how much Advisor migration may or may not occur between MFDA and IIROC SROs. The impact upon regulatory and financial industry structure is in large part dependent on the degree of migration. Whether the migration is large or small, we believe it is reasonable to assume that both IIROC and the MFDA will act reasonably and in the public interest. Consequently, BBSL believes any potential regulatory concerns can be effectively mitigated by IIROC and the MFDA.

From an IIROC dealer perspective the essence of the Upgrade Proposals is to permit IIROC dealers to potentially better manage costs as they primarily relate to regulation – compliance supervision and operations. To the extent the Upgrade Proposals lead to actual cost savings, such savings could fund greater resources for dealers to deal with regulatory demands. Moreover, to the extent clients choose to use a single firm to provide services, holistic supervision of account suitability would be a positive development for our regulatory regime.

In terms of financial industry structure, the health of dealers, whether IIROC or MFDA, is in question. Consequently, financial industry structure will inevitably change in the coming years regardless of the outcome of the IIROC Proposals. Predicting changes in industry

structure is not readily determinable, but utilizing any argument to defer the upgrades proposal based on the fragility of the industry may be specious in today's consolidation environment.

The IIAC recently published that in the past three years approximately 50 IIROC dealers have either closed due to financial instability, or have been consolidated into healthier and/or larger dealers. As well, the IIAC has warned that a substantial number of existing IIROC members are in difficult circumstance.

The industry is clearly in transition and going through substantial consolidation due to weak economic conditions related to revenue challenges coinciding with cost pressures arising primarily from increased regulatory costs. Any form of assistance provided to dealers would be helpful to our financial industry structure.

To the extent the potential cost savings can be actualized, the potential impact on the financial industry structure could be that it may strengthen the health of small to medium sized IIROC dealers.

2.d.2 Directed Commissions Proposal

If IIROC does not alter regulations to allow directed commissions, which is currently permitted under MFDA rules, we believe the Upgrade Proposals will only be appealing to a limited number of MFDA Advisors and will therefore be of little assistance to small and medium sized IIROC dealers. Conceptually, the Directed Commissions Proposal amounts to an enabler vis-à-vis the participation rate by MFDA Advisors in respect of the Upgrade Proposals. Most importantly, the Directed Commissions Proposal is a social equity issue.

The consequential impact of the Directed Commissions Proposal on regulatory and financial industry structure, we believe will be the same as described in 2.d.1.

How should these impacts be addressed?

Upgrade Proposals

Education and training is the central issue in respect of the Upgrade Proposals.

MFDA Advisors are already fully accredited to provide advice in respect of mutual funds and sell mutual funds to the public. In deference to the MFDA as a SRO, we do not believe further education is required to accredit an Advisor to provide mutual fund advice and to sell mutual funds to the public.

Education and training in respect of conduct and practice under the IIROC SRO and in the context of an IIROC dealer is the issue to be addressed from our point of view.

We believe SRO and dealer specific education and training should involve two qualification requirements. For SRO related accreditation, it may be advisable for the Canadian Securities Institute (“CSI”) to develop a restricted dealing representative Conduct and Practices Handbook course and test which focusses on the limitations and restrictions of providing services under IIROC rules. For dealer specific education and training, restricted dealing representatives tailored 90 day training programs would need to be developed by each dealer involved.

Directed Commissions Proposal

The Directed Commissions Proposal needs to address two issues: (i) SRO level playing field for the treatment of commission compensation; and (ii) potential Canada Revenue Agency (“CRA”) re-assessment risk.

While both the Upgrade Proposals and the Directed Commissions Proposal will require a formal process for approval, including potential administrative actions, the Directed Commissions Proposal has an additional consideration as a business model issue, which heavily interfaces with CRA issues that need separate consideration by IIROC.

BBSL would imagine that the leveling of the SRO treatment of directed commissions would not raise regulatory or industry structure changes as it is more a social equity issue to treat MFDA and IIROC dealing representatives equally. However, without due consideration toward potential CRA risks, there could be repercussions around the Directed Commissions Proposal.

BBSL believes that the potential CRA risk can be adequately addressed through modifications to IIROC Rule 39, and specifically Rule 39.3 amendments. Consequently and on that basis BBSL supports the Directed Commissions Proposal.

On two occasions BBSL has reviewed CRA issues with external accounting and legal advisors. The prime concern issue raised by such counsel was:

- CRA does not permit incorporation for employees. Agents may potentially incorporate.

BBSL believes that the above concern can be addressed by ensuring IIROC rules pertaining to the Directed Commissions Proposal include provisions that prescribe:

- IIROC members cannot provide directed commissions to employees; and
- Only IIROC dealing representatives in the Principal/Agent model may potentially qualify for the directed commissions approach if other conditions are met.

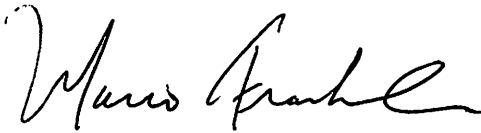
BBSL would suggest the simplest procedure to implement such an IIROC direct commission rule is to amend Rule 39.3 to add a new provision 39.3 c). Language for 39.3. c) can be developed as deemed appropriate by IIROC. In BBSL’s view some revised version of 39.3 should have language to the effect that an agent who is not an employee may, within IIROC defined parameters, be permitted to direct dealer commission payments to the agent’s corporation. A

potential amended Rule 39.3 in BBSL's view would also address the issue of social equity discrepancy between MFDA and IIROC permitted compensation approaches.

In summary, subject to the caveats described in respect of Rule 39, BBSL supports the immediate initiation of procedural requirements and actions, as appropriate, to proceed with the IIROC Proposals in the IIROC White Paper.

Thank you for your consideration.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Mario Frankovich". The signature is fluid and cursive, with a large initial "M" and a long, sweeping underline.

Mario Frankovich
Director