January 27, 2011

Mr. Doug McGregor
Chairman and Co-CEO
RBC Capital Markets
200 Bay Street
Royal Bank Plaza
South Tower, 3rd floor
Toronto, ON M5J 2W7

Mr. Roderick M. McLeod, Q.C.
Lawyer, Part-time Counsel
Miller Thomson LLP
600 – 60 Columbia Way
Markham, ON L3R 0C9

Dear Mr. McGregor and Mr. McLeod:

In an interview in the *Globe & Mail*, January 5, 2011, the President and CEO of the Mutual Fund Dealers Association (MFDA) Larry Wait expressed the view he had grown convinced the idea of a merger between the MFDA and the self-regulatory association for the Canadian investment industry (IIROC) made sense, would be better for investors confused by the array of regulators and would be better for the companies being regulated.

The Board of Directors of the Investment Industry Association, representing over 200 registered investment dealers in the securities industry, would endorse Mr. Wait's assessment there is good rationale for a merger between the two self-regulatory organizations. We urge members of the Board of Directors of the IIROC and MFDA to move forward expeditiously to agree on a planned merger and develop a strategic plan to integrate both organizations in the shortest timeframe possible.

A merger between IIROC and the MFDA would eliminate confusion among investors. But, it would do much more than that in benefitting the investing public. A merger would enable a reduction in direct regulatory costs and fees for dealers and mutual fund registrants, lowering transaction costs for investors struggling with low investment returns, as a share of these regulatory fees are passed on to investors. Lower regulatory costs would also provide some relief for registrants coping with tight operating margins in today's markets. This relief would ease the regulatory cost burden and contribute to more vigorous and diverse markets for financial services to benefit consumers.

Our view is a merger of the IIROC and MFDA could lower regulatory costs in three ways. First, a merger would permit consolidation into a single operating infrastructure. Second, more than 150 IIROC-registered firms carry out the same advice, distribution and sale of mutual fund products as the 139 MFDA firms. The increased scale and correspondingly lower per unit costs from compliance oversight, audit and enforcement would lower costs for the self-regulator. Moreover, about one-third of the MFDA member firms have affiliates regulated by IIROC thereby offering potential for further synergies. Third, the prospect for greater harmonization of IIROC and MFDA rules leading to a uniform or single rulebook for the conduct of

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advice, trading and sales of investment products could increase the scope for operating efficiencies; reduce investor confusion; improve proficiency standards for advisors; and provide greater fairness between mutual fund registrants and investment advisors by leveling the playing field in standards for the broker-client relationship.

The magnitude of the benefits between the IIROC and MFDA can be debated and are difficult to quantify. However, a decision not to proceed with a determined effort to consider a merger cannot be justified in terms of benefits to the investing public. We recommend your respective Boards of Directors engage at the earliest opportunity to build a single self-regulatory organization for the Canadian markets.

If the IIAC and its constituent committees can assist in this effort, we would be pleased to participate.

Yours sincerely,

Philip Smith
Chair, Investment Industry Association of Canada

c.c.: Mr. Larry M. Waite
President & Chief Executive Officer
Mutual Fund Dealers Association of Canada

Ms. Susan Wolburgh Jenah
President & CEO
Investment Industry Regulatory Organization of Canada