INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

Ian C.W. Russell FCSI
President & Chief Executive Officer

July 11, 2007

Thank you again for your earlier letter. We apologize for the delay in responding to you but wanted to ensure that we took the time to develop a considered strategy to deal with this issue. We agree that the matter of clients being overloaded with unwanted mailings is an important but challenging matter to resolve.

This by no means indicates that it cannot be addressed and rectified. Indeed, it is an issue about which our members feel strongly. In fact, the issue was raised at our Private Client Committee meeting recently by Jim Porter of your organization who is a committee member. The other PCC members reiterated the points in your letter and indicated that they receive the same complaints from their clients.

The timing of your letter coincided with two related matters. The first is the focus of the IIAC on achieving greater cost efficiencies in our regulatory system. The cost to member firms continually increases as more and more paper is sent to clients. These costs do not correspond to client benefits, as we know that most clients have asked time and time again not to receive this material. We are actively advocating the position that the regulatory regime must be as efficient and effective as possible, and that the cost of the regulatory burden must be streamlined so that firms can devote more of their money to conducting their business in order to achieve competitiveness and reduce the costs that the client ultimately bears. This issue fits squarely within this efficiency mandate.

Secondly, the Ontario Securities Commission (OSC) just released its proposed Statement of Priorities for 2007/2008. In it, the OSC states that one of its priorities is to "re-assess the impact of National Instrument 54-101 Communication with Beneficial Owners of Securities."

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11 King Street West, Suite 1600, Toronto, ON M5H 4C7
Tel: 416-865-3036 Fax: 416-364-4861 irussell@iiac.ca / www.iiac.ca

The IIAC contacted the OSC to understand how this statement would translate into action and to have a preliminary discussion to indicate the issues with NI 54-101. Specifically, we raised the issues of shareholder communication from foreign issuers and clients who have discretionary managed accounts. The OSC informed me that this project is currently under review at the senior levels of the Canadian Securities Administrators (CSA) to determine the scope of the initiative. Once that scope is approved, the CSA stated that it would welcome an opportunity to meet with stakeholders in the industry. We indicated that the IIAC would be pleased to work with the CSA to co-ordinate industry participation and offer our assistance in the development of a revised National Instrument. We also indicated that environmental considerations should have a bearing on their policy decisions. The CSA's approach to this matter is positive as it means that we will have an opportunity to provide vigourous representation and initiate changes early in the review of this National Instrument, rather than having to wait until CSA staff make amendments and release it for public comment.

While the IIAC is optimistic that we can make some changes to National Instrument 54-101 to reduce the amount of shareholder communication, we believe that this is only the first step to reduce the amount of "junk mail" that clients receive.

In the IIAC's submission to the OSC on the Client Relationship Model (CRM) we argued that clients receive excessive quantities of material in the course of establishing and maintaining their relationship with a firm and advisor. This volume detracts from the concept of useful disclosure as clients are unable to assimilate all such materials and it is often disregarded or discarded. Furthermore, over the years, regulated client disclosure has greatly increased. This increased disclosure includes mutual fund prospectuses to disclosure relating to leverage to increased disclosure relating to potential conflicts.

Our CRM letter raised the concern that as a result of the volume and complexity of required regulatory disclosure, clients do not review such disclosure in detail or at all. An additional layer of disclosure required by the Relationship Disclosure Document simply adds to that volume. There is a very real risk that it will be viewed as a further administrative burden and disregarded by clients.

It should be noted that early on in the development of the CRM, the CSA Steering Committee asked the IDA to examine the "removal of any requirements no longer necessary" in order to streamline documentation and materials provided to clients in the course of the advisor relationship. However, the IDA has, to date failed to reduce and remove redundant and unnecessary requirements and disclosure that are part of the account opening process. Currently, the list of materials that clients receive is, as you know, overwhelming. These include:

- leverage risk disclosure statement
- strip bond information statement
- joint account agreement
- margin agreement
- discretionary account agreement
- managed account agreement
- options trading agreement
- future contracts and/or futures contracts options trading agreement
- consent to electronic delivery of documents

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- trading authority agreement
- power of attorney agreement
- alternate dispute resolution brochure
- service fee schedule
- referral fees disclosure
- shared premises disclosure
- introducing/carrying broker disclosure

We have expressed these concerns to the IDA and have stated that we will be commenting on the IDA Member Regulation Strategic Initiative to Reformat, Reorganize Re-write the Rule Book in Plain Language (MR Notice 0448). While we recognize that the objective is to make rules easier to understand, we believe that the IDA should use this review of the Rule Book as an opportunity to remove unnecessary and obsolete requirements, specifically the reduction of the number of disclosure documents sent to clients.

On a positive note, the Joint Forum of Financial Market Regulators recently released its Proposed Framework 81-406: Point of Sale Disclosure for Mutual Funds and Segregated Funds. Under this initiative, clients would receive a simplified form of disclosure for mutual funds and segregated funds in the form of a two-page Fund Facts document at or before the point of sale. The main advantage is that the delivery of the Fund Facts document would replace the delivery of a simplified prospectus. The simplified prospectus will only be delivered to clients who request it.

This initiative is a welcome approach. The regulators have come to recognize that a short and simple document is more meaningful than a prospectus and, as a result, propose to remove this requirement. This is an example of the relevant, concise and informed disclosure that we support.

We will continue to highlight to the CSA the need to make similar changes and reduce the amount of unwanted mailings and disclosure documents that clients receive. We will be drafting a letter to the CSA outlining our concerns regarding the excessive amount of disclosure materials being provided to clients and suggesting how the CSA could address the problems that we have outlined above. A copy of that submission will be delivered to you as soon as it has been finalized.

Yours sincerely,