



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

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

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Mr. Paul Bourque  
Senior Vice President, Member Regulation  
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and

Mr. Louis Piergeti  
Vice President, Financial Compliance  
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Dear Sirs:

**Re: Requirement for Audit for Introducers and Section 5970 Report**

We are writing on behalf of our members in relation to an audit requirement as set out in the Institute of Chartered Accountants "CICA" Handbook. We request that the IDA allow a qualified audit report to be submitted by Introducing Brokers in respect of this provision.

The requirement in question is section 5970 of the CICA Handbook, which, in general terms, requires that a company that is relying on an unrelated service provider provide an audit report of that provider in relation to the functions that it undertakes for the company. Its application to Introducing and Carrying Brokers is that it requires the auditor of the Introducing Broker to undertake an audit of certain functions undertaken by the Carrying Broker on their behalf, and assess the design and implementation of controls over these business processes.

These control related procedures, such as trade processing and clearing, performed for an Introducing Broker by a Carrying Broker must be reviewed by the auditor of the Introducing Broker or alternatively the Carrying Broker must get their own auditors to produce a report for its Introducing Brokers. This leads to duplication, as Carrying Brokers are already required, and already get a section 5970 audit from their service

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providers. The requirement by the auditors of Introducing Brokers for separate assurance means that the Carrying Brokers must either;

- provide a section 5970 audit report that the auditors of the Introducing Brokers can rely on, or
- allow the auditors of the Introducing broker to perform their own audit of the Carrying Broker.

Both of these solutions are very costly to both the Carrying and Introducing Brokers, both in terms of the cost of having an Auditing firm provide the section 5970 audit report, or to perform sufficient audit procedures to satisfy themselves that control and related procedures are adequate. Costs also accrue to the Carrying Broker through the cost of staff time and disruption to their normal operations.

To date, Carrying Brokers have decided to hire an auditing firm to perform a section 5970 review that is acceptable to the auditors of each of the Introducing Brokers to which they provide services. This solution has come about as it is much more costly, in terms of staff time and resources, to permit the auditors of each Introducing Broker to have their own auditors come and perform their own audit. As a result, the Carrying Brokers are incurring significant audit costs which they are passing on, at least in part, to the Introducing Brokers. The cost of this requirement runs into the several tens of thousands of dollars, and depending on the number of firms for which the Carrying Broker acts, and the audit firm they use, the requirement can cost the Carrying Broker over \$100,000 per year. This translates into costs to the Introducers of from \$3,000 to \$15,000 per year in additional audit costs.

While we understand the objectives of the CICA requirements, we feel that the additional costs to the industry far outweigh any benefits to the brokers, the industry or the public. Furthermore, we also feel that the primary objective of the section 5970 report is already covered during the regular annual audit of the Carrying Broker.

We understand that the underlying principal for the section 5970 audit is to provide comfort that proper controls and procedures are in place at a service provider, which allows the auditors to rely on the data and reports generated and provided by the system. We believe that such assurance has always been obtained during past audits of the Carrying Broker and we fail to see the need to further increase the level of comfort over such controls.

Introducing Brokers are using the systems provided to them by the Carrying Brokers. These systems have already undergone a section 5970 audit at the service provider level, and also been audited by the auditors of the Carrying Broker. As part of that audit the auditors of the Carrying Broker relied on the section 5970 report, or, if there were weaknesses, performed additional audit procedures in order to ensure that proper controls and procedures are in place, and the reports can be relied upon.

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Some duties and responsibilities of the Carrying Brokers are already audited and reported to the IDA as part of the Carrying Brokers annual audit and reporting requirements to the regulators. In most cases, the only financial numbers from the systems that impact the Introducing Brokers are the commission revenue numbers, which can be verified by the auditors of the Introducing Brokers.

All of the salient regulatory issues are addressed in the Carrying Brokers' audit opinion. We feel there are sufficient checks and balances in the system with this opinion, plus the yearly sales compliance and financial reviews, IBM, ADP, Datafile or equivalent section 5970 report provided to Carrying Brokers in that regard. In addition we feel that the monthly financial reporting, quarterly operations questionnaire and other IDA requirements more than sufficiently cover the issues.

We submit that the section 5970 audits currently required by the auditors of Introducing Brokers is imposing a significant cost to the Carrying and Introducing Brokers that does not add any benefit to the Carrying and Introducing Brokers or the industry in general. As such, we believe it is appropriate for the IDA to accept qualified audit opinions in respect of this provision.

We would be pleased to discuss this with you further at your convenience.

Yours sincerely,

A handwritten signature in black ink, appearing to read "J. Russell", with a long, sweeping horizontal line underneath.