



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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Ms. Rozanne Reszel  
President & Chief Executive Officer  
Canadian Investor Protection Fund  
79 Wellington Street West  
Suite 610, P.O. Box 75  
Toronto ON M5K 1E7

Dear Rozanne:

Thank you very much for meeting recently with Morag MacGougan and me. As we discussed, this letter outlines our position with respect to CIPF fees for Type 2 introducers, given their unique characteristics and reduced risk profile. Our membership currently consists of 81 Type 2 introducing firms.

As I understand from our discussion, firms are charged CIPF fees based on a number of factors which determine a risk category or differential assessment rate (DAR). Firms pay fees calculated by multiplying the DAR by the firm's client net equity. We suggest that this method may not be appropriate for Type 2 introducers.

Introducing/carrying relationships between firms allow a firm to enter the industry and provide full service to their clients without bearing the set up and maintenance costs of operating a complete full service back office to clear and settle transactions. The carrying firm is responsible for providing custody of client assets on behalf of the introducer and these client accounts are then reflected on the books and balance sheet of the carrier. The carrier is then held fully responsible for the client assets they hold, which ultimately mitigates risk to the introducer and to the client. The Investment Industry Regulatory Organization of Canada (IIROC) approves the structure and ensures the carrier has adequate financial resources and control systems in place to address the increased risk associated with carrying the business of another firm.

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The custodial arrangements between the introducing firm and carrying broker, which place client assets of the introducer with the carrier, means that the bankruptcy risk of the introducer becomes a function of the operating and balance sheet risks of the carrying firm. Accordingly, CIFP fees charged to the introducer should be determined from the risk factors of the carrying firm, and the IIAC on behalf of our members would appreciate it if you would consider this matter.

We would be happy to discuss this further and look forward to hearing from you.

Yours sincerely,

*“Ian Russell”*

cc. Barbara Love