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

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

August 17, 2007

M. Jean St-Gelais
Président-directeur général
Autorité des marchés financiers
Place de la Cité, Tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Quebec) G1V 5C1

Monsieur:

The Investment Industry Association of Canada (IIAC) is writing on behalf of its members to raise with you the matter of investment dealer clients being inundated with excessive and unwanted disclosure material.

Our members hear much client frustration about communication and disclosure material received that exceeds investment needs, particularly from those clients relying on an Investment Advisor or with discretionary managed accounts. Investor frustration is exacerbated when it is learned that advisors and firms cannot restrict unwanted disclosure materials, due to regulatory requirements.

IIAC member firms, reflecting pressure for more client discretion over the unwanted paper flow, respectfully request the CSA comprehensively examine changes to various regulatory requirements. Regulators should also be cognizant that unwanted paper burden contributes to environmental costs.

It is appropriate to raise this issue for two reasons. First, identifying cost-efficiencies in the regulatory system is an important initiative for the industry. The reduction in the flow of disclosure materials to investors, by permitting investors and their advisors to exercise more discretion on the materials required would reduce costs to member firms and issuers, costs that are ultimately passed onto investors.

…/2

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

Secondly, the Ontario Securities Commission (OSC) has just released its Statement of Priorities for 2007-2008. 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". This instrument regulates shareholder communications for Canadian issuers. The National Instrument mandates the delivery of extensive quarterly and annual disclosure material to investing clients. The client discretion permitted under the National Instrument is insufficient to reduce the unwanted paper flow.

One issue in respect of NI 54-101 is that while investors may chose to receive all material, no material at all, or only that material deemed by Canadian issuers to relate to other than "routine business", foreign companies are not obliged to restrict materials distributed to Canadian shareholders, regardless of the option selected by the investor under NI 54-101. Accordingly, the IIAC recommends that NI 54-101 be examined to determine the various means that could reduce the shareholder communication materials now being sent by foreign issuers.

A further concern with NI 54-101 relates to clients who have discretionary managed accounts. These clients have opted for this type of account relationship to have a trusted advisor oversee their investments and guide investment decisions. As a result, NI 54-101 should be revised to permit investment dealers to withhold the names of clients in discretionary managed money programs from shareholder registers, if requested by the client.

We understand there is a CSA project underway to determine the scope of the NI 54-101 initiatives. Once that scope is approved, the CSA signaled it will meet with interested shareholders to discuss the disclosure dissemination problem. The IIAC will be pleased to work with the OSC to coordinate and contribute industry participation to the exercise.

The excessive disclosure problem in Canadian capital markets also coincides with greater awareness among Canadians of the underlying environmental issues. While we recognize the CSA has a primary obligation to protect the investing public, it should also be mindful of the environmental consequences of its policies. The mailings of unwanted materials to investors represent a huge waste of materials and energy.

While the IIAC is optimistic that we can assist you and other regulatory authorities in making 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 feel they receive.

In the IIAC's submission to the IDA and OSC on the Client Relationship Model (CRM) in April 2007, we argued that clients receive excessive quantities of material in the course

…/3

of establishing and maintaining their relationship with a firm and advisor. It is ironic that excessive disclosure actively interferes with the investment decision by confusing investors as well as obscuring the essential and most important information.

Furthermore, it should be recognized that regulated client disclosure has greatly increased. This increased disclosure emanates not only from the proliferation of new complex investment products, but from increased disclosure requirements related to mutual fund prospectuses, disclosure related to leverage, and disclosure related to potential conflicts of interest.

Our CRM letter raised the concern that as a result of the volume and complexity of required disclosure materials, clients fail to review much of this disclosure material. An additional layer of disclosure required by the Relationship Disclosure Document simply adds to that volume without providing any net benefit. There is a real risk that this will be perceived as a further administrative burden, disregarded but paid for by clients.

It should be noted that early 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.[1] However, the IDA has, to date, failed to reduce and remove redundant and unnecessary requirements, including disclosure, that is part of the account opening process. IDA regulations currently prescribe an extensive and, in many cases overwhelming, list of mandated disclosure materials. 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
- trading authority agreement
- power of attorney agreement
- alternate dispute resolution brochure
- service fee schedule
- referral fees disclosure
- shared premises disclosure
- introducing/carrying broker disclosure

…/4

[1] See SRO Account Opening Working Group Direction Document, Page 1; approved by the CSA in May, 2005.

We strongly urge the CSA to consider these points in the next steps in the development of the CRM.

On a more 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. We are encouraged that 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 are respectfully requesting an opportunity for the Association to participate in the review of National Instrument 54-101 and, as well, to work with the CSA in examining other regulatory amendments that could reduce the amount of unwanted mailings and disclosure documents for investing clients.

Yours sincerely,

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