

November 1, 2006

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
New Brunswick Securities Commission
Securities Office, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Nunavut
Registrar of Securities, Yukon Territory

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1903, Box 55
Toronto, Ontario, M5H 3S8
Canada
e-mail: jstevenson@osc.gov.on.ca

and

Madame Anne-Marie Beaudoin
Directrice du secretariat
Autorite des marches financiers
800, square Victoria, 22e etage
C.P. 246, Tour de la Bourse
Montreal (Quebec), Canada H4Z 1G3
e-mail: consultation-en-cours@lautorite.qc.com

Re: Notice of Proposed NI 23-102 Use of Client Brokerage Commissions as
Payment for Order Execution Services or Research ("Soft Dollar"
Arrangements)

Dear Mr. Stevenson and Madame Beaudoin:

The Investment Adviser Association ("IAA") welcomes the opportunity to
comment on the proposed National Instrument 23-102 ("Proposed Instrument") issued by

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the Canadian Securities Administrators (“CSA”) regarding the use of client brokerage commissions as payment for order execution services or research.

The IAA is a not-for-profit organization that exclusively represents the interests of investment adviser firms registered with the U.S. Securities and Exchange Commission. The IAA was founded in 1937 as the Investment Counsel Association of America and played a major role in the enactment of the Investment Advisers Act of 1940, the law regulating the investment adviser industry in the United States. Today, the IAA consists of more than 450 investment adviser firms that collectively manage in excess of \$6 trillion in assets for a wide variety of institutional and individual clients, including pension plans, trusts, investment companies, endowments, foundations and corporations. The IAA’s membership includes Canadian-based investment advisory firms as well as U.S.-based firms that conduct investment advisory business in Canada, primarily through affiliates providing investment management services to Canadian clients.

During the past few years, the IAA has been actively involved in discussions related to soft dollar issues in the United States. For example, our organization testified before the Senate Banking Committee and has submitted numerous comment letters to the Securities and Exchange Commission regarding soft dollar interpretations and proposals.¹ In doing so, we have consistently voiced our support for full and fair disclosure of the use of client commissions for research and brokerage services in the United States and abroad. In addition, the IAA commented during the U.K. Financial Services Authority’s rulemaking regarding the FSA’s decision to encourage an industry-led solution on transparency and accountability regarding softing and bundling arrangements.²

We commend the CSA for considering these important issues and we appreciate the opportunity to provide input regarding the Proposed Instrument.

¹ See Written Statement of Geoffrey I. Edelstein, Managing Director of Westcap Investors, “*Review of Current Investigations and Regulatory Actions Regarding the Mutual Fund Industry: Examining Soft-Dollar Practices*,” before the U.S. Senate Committee on Banking, Housing, and Urban Affairs (Mar. 31, 2004); IAA Letter to U.S. SEC on Commission Guidance Regarding Client Commission Practices Under Section 28(e) of the Securities Exchange Act of 1934 (Nov. 23, 2005), ICAA Statement Re: Soft Dollars (Mar. 3, 2004).

² See IAA Letter to UK FSA re CP 05/13 on Bundled Brokerage/Soft Commissions for Retail Funds (Jan. 6, 2006), IAA Letter to UK FSA regarding CP 05/5 on Bundled Brokerage/Soft Commission (May 31, 2005). See also, ICAA Letter to UK FSA regarding PS 04/23 on Soft Dollars/Bundled Brokerage (Dec. 16, 2004); ICAA Letter to UK FSA regarding CP 176 on Bundled Brokerage and Soft Commission Arrangements (Oct. 9, 2003). Each letter is available on the IAA Web site (www.investmentadviser.org) under “Comments and Statements.”

Suggested Revisions To The Disclosure Requirements Of The Proposed Instrument

The IAA appreciates the CSA's desire to clarify the goods and services that may be acquired with client brokerage commissions and to increase accountability and transparency with respect to brokerage commissions. The IAA consistently has supported accurate and informative disclosure of client commissions for research and brokerage services so that clients can be knowledgeable about how their commission dollars are being used. We are concerned, however, that the requirements set forth in Section 4 of the Proposed Instrument with respect to the disclosure of commission practices will not serve to increase accountability and transparency. We understand that clients generally have not requested information of the type and level of detail proposed to be disclosed and that clients receiving such information have not appeared to find it meaningful. For example, the Proposed Instrument would require disclosure to clients of all broker-dealers used and their products and services provided. Providing such lengthy lists (some investment advisers may utilize the services of hundreds of broker-dealers a year) would only distract clients who would be better served by receiving information generally describing services offered and the types of broker-dealers utilized. In addition, providing extensive details of each service or product received in consideration for client commissions would be unnecessarily burdensome in relation to its limited value to clients given the difficulty of quantifying certain services or products.

Instead, we respectfully suggest that clients would be better served by brokerage commission disclosure that supplies information about an investment adviser's general trading practices, including the adviser's policy with respect to research and the way in which brokerage allocation decisions are made. Investment advisers should be required to provide information to clients about services rendered, but with some flexibility with respect to compliance with disclosure obligations. A narrative format, similar to the disclosure required by the SEC in Form ADV Part II,³ and suggested by the Investment Management Association in the Level 1 framework,⁴ allows for a flexible disclosure regime that is informative and relevant for clients. Such a framework clearly addresses the CSA's goal of increased transparency and accountability with respect to brokerage commission practices without overwhelming clients with unnecessary details or potentially inaccurate or inconsistent information.

Suggested Clarifications To The Framework of the Proposed Instrument

The IAA supports the CSA's goal of providing a specific framework for the use of client brokerage commissions by investment advisers, as set forth in the Proposed Instrument, the Notice of the Proposed Instrument, and the Companion Policy to the

³ Form ADV Part II is a written disclosure statement containing information about an investment adviser's background and business practices that is required to be delivered to each client or prospective client.

⁴ The Investment Management Association is a trade association that represents the U.K. investment management industry. Level I is a general description of a firm's brokerage practices.

Proposed Instrument (“Companion Policy”). We agree with the framework set forth in the Proposed Instrument to the extent it provides that order execution services and research acquired with brokerage commissions benefit the adviser’s clients and add value to investment or trading decisions, and that the commissions paid are reasonable in relation to the value of the products and services received. We request clarification, however, that investment advisers would not be required to allocate benefits received with client commissions to particular clients.⁵ Investment advisers typically use research for the benefit of more than one client. Specific allocation of the benefit of research services or products to particular clients would be burdensome to investment advisers and imprecise given that goods and services received benefit a number of clients.

Regulatory Consistency Is Essential

Given the increasing globalization of the asset management industry, we cannot overstate the need for consistency between the client brokerage commission disclosure requirements imposed by regulators in Canada, the United States, and the United Kingdom. Many investment advisers are subject to regulation to some extent in all three jurisdictions and it would be very difficult, time-consuming, and expensive for them to comply with disparate regulatory regimes, particularly when rules differ on the same subject matter. The IAA has long emphasized that securities regulators should work together to ensure uniformity in the approach to rules regarding client commissions and brokerage so that investment advisers with operations in several different countries can operate under consistent regulatory frameworks. We recognize and commend the CSA’s desire to provide regulatory consistency with the SEC and the FSA. It is our understanding that the SEC is currently in the process of drafting disclosure guidelines for brokerage commissions. We think it is essential that the CSA coordinate with the SEC (and the FSA) to ensure that the disclosure guidelines regarding client brokerage commissions are consistent and assist in uniform implementation, especially for investment advisers with operations in multiple jurisdictions.

Additional Clarifications Or Revisions To The Proposed Instrument

Finally, we concur with many of the points raised in the letters to you from Robert Grohowski of the Investment Company Institute, from Henry Hopkins of T. Rowe Price (each dated October 19, 2006) and from Katie Walmsley of the Investment Counsel Association of Canada (dated October 30, 2006) regarding the Proposed Instrument. Specifically, with respect to the application of the Proposed Instrument, we agree with the other commenters that it should be limited to transactions where there is an independent pricing mechanism to enable investment advisers to accurately and consistently determine the amount of the commission that a dealer is charging for a

⁵ This need for clarification is raised by a comment in the Companion Policy that advisers should have policies and procedures “to allocate, on a fair and reasonable basis, the good and services received to its clients whose brokerage commissions were used as payment for those goods and services.” Companion Policy, Part 4.1(2).

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transaction. We also concur that, with respect to the definition of order execution services and research, the proposals regarding order management systems, proxy voting services, publicly available information or publications, and raw market data should be clarified or revised to enhance consistency between the U.S., U.K., and Canadian markets.

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We appreciate the opportunity to provide our views on this important issue. Please do not hesitate to contact us if we may supply additional information or assistance to you regarding these issues.

Sincerely,

A handwritten signature in cursive script that reads "Valerie Baruch".

Valerie Baruch
Assistant General Counsel
Investment Adviser Association