



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

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

January 29, 2008

Ms. Susan Wolburgh Jenah
President & CEO
Investment Dealers Association of Canada
121 King Street West, Suite 1600
Toronto, Ontario
M5H 3T9

RE: Client Relationship Model

Dear Ms. Wolburgh Jenah:

The Investment Industry Association of Canada is writing on behalf of our members to express their views surrounding the Client Relationship Model (CRM) initiative.

This letter serves as an executive summary to the more detailed comment letter on the CRM which is attached. This executive summary provides an overview regarding the concerns our members have had over a number of years relating to the CRM and its predecessor document, the Fair Dealing Model. We acknowledge that there have been some changes to the CRM in response to comments from the IIAC and its member firms, specifically regarding the ongoing suitability review and the portfolio performance calculation. However, we and our members continue to have certain concerns with the proposed CRM rules which are summarized below.

CRM – A Regulatory Solution in Search of a Problem

The mandate of the Canadian securities regulators, including the Investment Dealers Association of Canada (IDA), is to protect investors and enhance the efficiency and competitiveness of the Canadian capital markets.

The CRM proposals have been put forward specifically by the Ontario Securities Commission (OSC) and now the IDA for a number of years without the identification of either an actual or perceived market or regulatory failure that requires regulatory intervention through the CRM. Despite numerous requests, the IDA and the OSC have never presented any data, other than anecdotal information, confirming that investors have demanded, sought or are in need of the industry-wide changes that the CRM including the new Relationship Disclosure Document (RDD) would impose. In addition, no evidence has surfaced or been produced as to the expected effectiveness of the proposal – from the very beginning the overall industry has questioned the need for these proposals. From a principle perspective there are some good ideas but those have been lost in the details. .../2

We note that consumer preferences have not driven an overall market response. For example, if RDD-type disclosure, performance reporting and cost reporting are important to clients and there is a service gap, clients can migrate their business to firms that provide such offerings. We and our members believe that investors are already generally well served and provided with sufficient information about products and services as well as regular reporting on their accounts.

A needs analysis needs to be conducted and articulated in advance of rule formulations; otherwise, the CRM regulatory proposal cannot be measured against the public protection failures, if any, which it is intended to address.

The addition of further prescribed rules applicable to the investor/advisor relationship in the absence of a Canadian capital markets problem seems to go against the mandate of enhancing the efficiency and competitiveness of the Canadian capital markets. We would submit that the proposed RDD would largely be ignored by investors – some of your recent studies, such as through the Task Force to Modernize Securities Legislation, have noted that point with respect to other disclosure documents provided to investors – notably prospectuses.

Cost Benefit Analysis

The IDA and the OSC have regularly stated since the very early stages of the development of the CRM that a comprehensive cost-benefit analysis (“CBA”), including a client survey, would be conducted. However, although the IDA is currently coming to an end in parts of its CRM rule-making process, the CBA including the client survey have not yet been conducted. An effective CBA is an iterative process that includes a CBA analysis conducted at the formative stages of a regulatory initiative to shape and frame an effective rule rather than after the rule has been developed.

The IIAC has stated numerous times that our Association and our members believe a CBA and survey are integral to the rule-making process. The securities industry is prepared to lend resources and support to a cost-benefit analysis on the proviso that the industry has some participation in the exercise, rather than simply giving up client names. Member firms appreciated the opportunity to participate in the IDA/MFDA/OSC information session held on April 2, 2007 with the Allen Research Corporation and subsequent sessions and discussions. They also provided comments and drafting suggestions regarding the questions in the draft client survey and additional questions that should be included in order to make the exercise more effective and productive. However, members have not received any feedback regarding their input nor have they received any information concerning the time frame for completion of the client survey and CBA. The process appeared to end abruptly.

It is imperative that regulators are rigorous in the conduct of CBAs to determine the need for and to enhance the development of necessary regulation in a cost-effective manner. In addition, seeking industry and retail investor perspectives on key matters such as the investor/advisor relationship including increased documentation on account opening through the RDD is key. In this instance, the CBA is necessary to ascertain the problems and whether the benefits to the investing public of the CRM exceed the direct and indirect compliance costs. It is our view that competitive pressures and market forces already require industry members to respond effectively

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to client needs and wants. Both the CBA and investor feedback initiatives, which have been identified as priorities by the OSC for 2008, are integral to the final structure and framework of any rules and should be conducted before rules are finalized.

IIAC Proposal - Alternative Model

In response to the IDA's request for comments, and given that the IDA has itself expressed some concerns regarding customization of the RDD and that the industry would want to make the process meaningful for clients who wished to avail themselves, members of the IIAC prepared an alternative proposal and a draft standardized industry RDD to help clients better understand the relationship with their advisor. We believe our alternative, which has been provided to the IDA, would be more meaningful to investors. Our members are proposing a single and much shorter industry-wide RDD be created for all account types, which includes broad concepts instead of minute details.

Members would be required to ensure clients are made aware of the RDD and clients could then determine if they would like to receive the document at which time it would be made available to them or they could access it over the Internet. The focus of the alternative model is to provide concise information to clients and make clients aware of what information they may want to receive and the questions they should pose to their advisor. This avoids providing clients with a thick document that they will likely not read. Again, your studies have questioned the efficacy of detailed disclosure documents and continue to look for mean to ensure investors have the access they want to information on a clear and concise basis.

The IIAC and our members believe that a standardized industry-wide RDD will lead to a greater consistency of common understanding across the investing public. To date, we have not received any feedback from the IDA on this proposal.

Consultation Process

The IIAC and our members recognize that the design of practical and cost-effective CRM rule proposals is a complex and difficult process. We are also cognizant of the time and effort that IDA had expended in the process.

However, while there have been some industry consultations in the rule-making process, we wish to re-iterate the view of our members that the consultations that have taken place thus far have been largely briefing sessions rather than constructive give-and-take on the structure and content of the proposed rules. Further, although certain changes have been incorporated in the CRM proposals more recently, the key matters that have been raised continually by members through the consultation process and through IIAC submissions, including this letter, have remained largely unaddressed.

As part of the IDA's August 2006 Advisor Consultation process, the IDA received hundreds of written comments. Numerous advisors from different firms participated in that consultation and invested time in providing thoughtful and comprehensive comments. However, the draft proposals do not take into account key comments provided. Further concerns with the process are evidenced by the lack of response to the IIAC Alternative CRM Model submitted to the IDA along with the IIAC comment letter on April 23, 2007. No response has been provided and no consideration of this Alternative Model seems to have occurred.

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Industry comments have an important bearing on the rule-making process to evaluate proposed rules and stimulate further discussion to design efficient rules. We believe that flexibility and responsiveness must be demonstrated in the rule-making process to ensure that rules are practical, meet the public interest and enhance the efficiency and competitiveness of the Canadian capital markets.

Conflicts of Interest

The recent draft CRM rule proposals now contain a conflicts of interest section. This is a new requirement that we understand is intended to mirror the conflict provisions contained in National Instrument 31-103. While we understand that it is important to have uniformity in regulatory requirements, we do have some concerns with the language in both the National instrument and the IDA rule proposal.

The new provision appears to broadly require disclosure of member and advisor conflicts of interest, yet there is no discussion of the definition of a conflict, which may be considered material and which may simply arise as a matter of course in the industry based on, for example, the method that an advisor is compensated. Similar to the overall CRM, there is no identification of the problems and conflicts that have occurred in the industry, which are not already addressed by the various existing regulatory requirements relating to conflicts disclosure, therefore, triggering the need for a general conflicts of interest rule.

The IIAC is concerned that the new conflicts of interest rule proposal lacks core rules with clear parameters and focused guidance to ensure the conflicts net is not cast too widely. Identifying and disclosing every conflict to clients could result in a further overly complex and lengthy disclosure document which clients may not read and, therefore, may not be the optimal regulatory requirement. The IIAC and our members welcome the opportunity to better understand and work with the IDA to address the specific issues which currently exist relating to conflicts of interest.

Summary

The IIAC asks again that its and its members' views be fully considered prior to the rules being finalized to ensure that the CRM is both a meaningful and effective initiative for investors and for the industry as a whole.

Yours sincerely,



Encls.

Cc: Paul Bourque, Senior Vice-President, Investment Dealers Association of Canada
Richard Corner, Vice-President, Regulatory Policy, Investment Dealers Association of Canada
Ron Lloyd, Chair IDA Board of Directors, Credit Suisse Securities
Larry Waite, President & CEO, Mutual Fund Dealers Association of Canada
David Wilson, Chair, Ontario Securities Commission



INVESTMENT INDUSTRY ASSOCIATION OF CANADA
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January 28, 2008

IIAC SUBMISSION TO THE IDA CLIENT RELATIONSHIP MODEL

This letter is a follow up to the Investment Industry Association of Canada's (IIAC) April 23, 2007 letter to the Investment Dealers Association of Canada (IDA). In that letter we expressed concern, on behalf of our membership, with respect to draft rules relating to the Client Relationship Model (CRM) that have been prepared by the IDA. This comment letter has been drafted with the assistance of the IIAC CRM Committee, which consists of numerous members from across Canada, representing a broad cross section of firms.

While the proposed rules have not yet been issued for formal comment, we are making this submission at this time to assist in the ongoing rule formulation process and to highlight issues and concerns based on the IDA's recently circulated draft Board Paper and CRM rule proposals entitled, "Establishment and Amendment of IDA Rules to Implement the Core Principles of the Client Relationship Model," dated November 21, 2007. We anticipate that further comments will be forthcoming from the IIAC once the draft rules are issued for formal comment.

We understand that the IDA and the Mutual Fund Dealers Association (MFDA) staff have recently developed these revised proposals based on comments received. However, we acknowledge that while certain changes have been made in areas such as the ongoing suitability requirement and performance reporting, our members believe that many of the fundamental comments contained in our earlier letter have not been addressed.

As previously stated in our earlier submission, the members of the IIAC generally support the three core principles set out in the CRM: clear allocation of responsibilities, transparency and management of conflicts; however, they do have significant ongoing and fundamental concerns with the CRM and its Relationship Disclosure Document (RDD). While the draft Board Paper states on page five that the rule proposals were revised to be more focused on the CRM core principles, our members maintain their view that the new RDD is still overly onerous and requiring the preparation of a lengthy document which clients will not likely read.

The result is an unduly intricate RDD that, because of its excessive details, will demand an unreasonable amount of member time and effort to complete. Further, the length of the RDD will result in few clients reading the document. The intended objective of the CRM, to have the client understand their relationship with their advisor, will therefore not be achieved.

As we outlined in our previous submission, we believe that the CRM would benefit from a greater focus on principles-based regulation, an approach which the IDA has publicly endorsed. The industry CRM Committee of the IIAC could make an important contribution in a rule reformulation process that would focus on outcomes for clients and the capital markets as a whole.

The current regulatory regime in Canada is far too detailed and complex with rules that govern the advisor relationship with clients as well as the internal operations of firms. The proposed CRM simply adds to this regulatory burden. There is no data to support this initiative and there are already issues with the type and amount of disclosure out there – clients are bombarded with the result being they ignore most of what they are sent.

As we stated in our comment letter of April 23, 2007 the IIAC and our CRM Committee have developed a much abbreviated alternative model to the current RDD (the Alternative Model). To date, the IIAC has not received any response from the IDA regarding this alternative. For ease of reference, we include a summary of the proposal from our April 23rd submission below:

IIAC Proposal - Alternative Model

In order to develop a more principles-based approach, members of the IIAC have prepared the Alternative Model to help clients better understand the relationship with their advisor. The IIAC and our members are proposing a single industry-wide RDD be created for all account types, which includes broad concepts instead of minute details. The Alternative Model would focus on principles such as:

- clear and concise information to all clients;
- increased onus on the client to take an active role in managing the successful relationship advisor;
- explicitly limiting the RDD to a descriptive function rather than establishing new regulatory and contractual obligations through the RDD, representing a service level arrangement between the client and advisor;
- providing documents and information only if the client wants it: availability would constitute receipt; and
- policies and procedures surrounding supervision would be left to each member to determine;

If clients wish, an annual portfolio review can occur to review the client's account holdings and investment strategy.

The method of delivery of the RDD would not be mandated nor would an acknowledgment of receipt be required. The focus of the Alternative Model is to provide concise information to clients and to make clients aware of the information they may want to receive and the questions they should pose to their advisor. This avoids providing clients with a thick document that they will likely not read. The onus is

therefore placed on the client to engage in a discussion with their advisor and determine the information they are interested in receiving.

Other disclosures that are currently mandated would be listed in the RDD to ensure that all requirements are contained in one document for ease of reference. These disclosures would be accessible to any client upon request. The detail contained in the RDD itself would be kept to a minimum but firms would have the ability choose to have additional schedules attached to the RDD that fit their business model.

The scope and application of the RDD should be explicitly limited to being descriptive in nature. In other words, it will address the intended policy objective of providing clients with information without establishing new regulatory standards or contractual obligations. We submit that the existing regulatory regime is sufficient in that regard. In addition, the industry has extensive and well-developed dispute resolution standards and mechanisms in place to address those isolated incidents where clients perceive that they did not receive appropriate or satisfactory services. Further, and as a general comment, advisors and firms have a keen economic interest in meeting the needs and ensuring the ongoing satisfaction of their clients. The significant power held by financial services consumers through their ability to redirect their business if their needs are not met to their satisfaction seems to have been largely downplayed or disregarded throughout the CRM rule-making process to date.

The IIAC and our members believe that a **standardized industry-wide RDD** will lead to greater consistency of common understanding across the investing public. This would give firms the freedom to deal with their clients in a way that meets their objectives and provides satisfaction to clients. Similarly, a firm may choose to develop a customized RDD.

The IIAC has outlined below some of our members' general concerns surrounding the revised CRM proposal.

General Comments on the Proposed CRM Rules

Customization

The new CRM proposal purports to have moved away from customization. We disagree. The previous CRM proposal stated that the RDD required that it "be customized to the extent necessary to properly describe the client relationship". While this language has been removed, the new proposal still requires a "description of the account relationship to which the client has consented". The new version however, does acknowledge that this may be achieved through a standardized relationship disclosure. But it should be noted that the previous draft RDD also permitted standardization for different categories of clients.

As a result, the new RDD still requires significant customization and members' concerns about customization have not been addressed.

Prescriptive Requirements

The draft Board Paper indicates that the prescriptive nature of the proposal has been addressed by the reduction of the number of prescribed items. However, very few items have been removed, while additional new items have been added.

The only removed requirements are as follows:

- member's obligation to advise client of material changes on the part of the member which may have relationship and products/services offered;
- member to provide client with reasonable notice of change to product/services offered;
- a discussion of how and which of the member's products and services will meet the client's investment objectives;
- a description of investment risk factors and types of risks that should be considered by the client when making investment decisions;
- the ongoing suitability review and account cost report are now optional;
- the methods by which the client can communicate with the firm and the contact points; and
- the *optional* information regarding name of advisor and nature of employment or contractual relationship between the member and advisor.

However, the new requirements are as follows:

- a description of the process used by the advisor/portfolio manager and the member to assess investment objectives and risk tolerance and a statement that the client will be provided with a copy of the KYC information that is obtained from the client and documented at time of account opening and when there are material changes to the information;
- a description of the member's minimum obligations to assess the investment suitability prior to recommending an investment or when the new trigger events occurs;
- a statement indicating when trade confirms and account statements will be sent to the client; and
- a description of the member's complaint handling procedures and a statement that the client will be provided with a copy of an IDA approved complaint handling process brochure at time of account opening.

Consequently, the number of prescribed items and the onus and potential exposure of members has increased.

As the IIAC has previously stated, prescribed items in an RDD cannot replace good communication and discussion between the advisor and the client. There is the implication in the IDA responses that such a fulsome relationship does not currently exist. Prescribing a relationship in minute detail in a document which is likely not to be read by an investor is not a desirable approach.

Client signature or acknowledgment

There has been no clarification surrounding the suggestion for a client signature or acknowledgment of receipt of information. What will occur in situations where clients refuse or forget to sign or return documents to the firm? Where a client refuses to sign, does the account need to be closed? During the time it takes to receive the signature from the client, can transactions continue to take place? Further, the RDD contained in proposed National Instrument 31-103 *Registration Requirements* (NI 31-103) does not include a requirement to document that the client has been provided with the required information. Requirements for all registrants should be standardized and harmonized and there is no justification for a different requirement for IDA members.

Updating the RDD

There has been no guidance provided in regards to the frequency that the RDD must be revised and updated. Must a new RDD be sent to a client every time a firm makes minor changes to its fee schedule? If the firm includes as part of the RDD a section on client obligations, must a new RDD be sent every time the client informs the firm of a material change? There has been no discussion of these key issues. Further, would a new client signature or acknowledgment be required every time a revised RDD is sent to the client?

It is interesting to note that one of the few requirements *removed* from this revised RDD is the member's obligation to advise the client of any material changes on the part of the member which may affect the nature of the relationship and the products and services offered by the member. This is helpful, but still leaves the member in a position of trying to comply and yet still being vulnerable to regulator or client risk on a looking back basis.

Retroactivity

It appears that the RDD is intended to be provided to clients at the time of opening an account or accounts. Is it therefore correct to assume that this requirement is only for new accounts? To require existing clients to enter into an RDD would involve significant time and entail significant cost to the industry. What is to happen with existing clients? Members are concerned that providing a RDD to existing clients would involve significant time and entail significant cost.

The alternative proposal would alleviate much of this concern. Members would have the choice of sending a common industry document to all clients or could send or provide existing and new clients with a notice that such a document was available on request.

Detailed Comments on the Proposed CRM Rules

Description of Products and Services

The RDD requires a description of the types of products and services offered by the dealer, however, the degree of detail the description requires is not clearly set out. For

example, would it require a description of foreign exchange rates? Instead of reducing client and regulatory complaints or actions, this open-ended nature of the proposal runs a risk, because of the uncertainties, of actually increasing actions or complaints – once a disclosure rule is in place, people will rely on it and take advantage of it. The alternative proposal would not have such an effect unless members were not providing the document or the notice of the document.

In addition, what would occur in a situation where some advisors only offer fee based products and not commission based products, but the firm-wide RDD provides a description of both types of accounts? Would the firm be required to develop different RDDs for these advisors?

Furthermore, the RDD will end up being more customized as products and services change over time.

Description of the Account Relationship

The RDD requires a description of the account relationship. To satisfy this requirement, if a client has an advisory account and a managed account at the same firm, the client would either receive two separate RDDs or a combined RDD for both accounts. An industry-wide RDD would eliminate the need for either separate RDDs or a complex and confusing “combined” RDD.

We also question what kind of description is contemplated, for example, for a managed account? Would the RDD be required to summarize what is contained in the managed account agreement and how these agreements work? Is it necessary to summarize the managed account agreement?

Description of Process to Assess Client’s Investment Objectives and Risk Tolerance

A new requirement in the proposed rules is the requirement to describe the process used by the advisor/portfolio manager and the member to assess the client’s investment objectives and risk tolerance and a statement that the client will be provided with a copy of the KYC information that is obtained.

The difficulty with such a requirement, especially where the firm uses a customized document, is that every advisor engages in this process differently. The process to assess the client may occur through a detailed interview, a questionnaire or via the account opening document. Even in a face-to-face interview, no two advisors will pose the exact same questions. Therefore, how is such a description possible?

Further, if the IDA expectation is that the firm will simply include a boilerplate paragraph stating that the client will meet with their advisor and the advisor will ask questions to assess the client’s investment objectives and risk tolerance, the result is a generic explanation that is of no value to the client.

As a result, such a requirement is not only unworkable but ineffective and useless.

Conflicts of Interest

Conflicts have effectively been at the core of securities regulation since inception. When a particular regulatory failure has occurred, the result has been the creation of regulatory requirements to address the conflict in the industry: best execution, strip, disclosure of securities holdings of an advisor, statement of policies, underwriting conflicts, etc.

Where problems arise in the industry, they should be dealt with directly, however, we fail to recognize where is the regulatory failure in this instance. The IIAC respectfully requests some examples of conflicts that are creating issues for clients which this new provision is meant to resolve. Recognizing, and disclosing every conflict to clients is not the optimal regulatory response.

We suggest that the current approaches to conflicts of interest are appropriate, rather than the adoption of the MFDA approach or the approach being taken in Registration Reform documents.

We also note some inconsistencies in the drafting language of conflicts of interest provisions. Page seven of the November 21, 2007 draft Board Paper states that:

the MFDA's conflict rule requires that all conflicts be addressed in favour of the client. The IDA is proposing to adopt a similar general rule to clearly state that where conflict situations cannot be avoided, all such conflicts must be resolved in favour of the client.

While we support the proposal for harmonized rules between the MFDA and IDA, we are somewhat confused as the actual draft rule on page 24 makes no reference to conflicts being resolved in favour of the client. The conflict of interest draft rule language simply states that the conflicts should be resolved in a “fair, equitable and transparent manner” and “by exercising responsible business judgment influenced only by the best interest of the client or clients.”

This language is different than what is proposed in the draft Board Paper. We request that this inconsistency be resolved.

Reference in the draft Board Paper also states that the wording of the conflict resolution/disclosure rule proposal would be based on the existing wording in Section 6.1 of proposed NI 31-103. The disclosure requirements for conflicts of interests in NI 31-103 are overly broad and unclear, likely capturing many situations that are not “true” conflicts.

The language of this provision is so broad that it could encompass outside business activities, referral arrangements and other situations that are not true conflicts of interest.

The unlimited scope of the conflicts provision will provide little meaningful information to clients. This is similar to the result achieved by the OSC'S Statement of Policies,

which is required to be provided to clients, but is of a little value to most clients because of its level of detail.

Account security position cost disclosure

The draft Board Paper states that the MFDA is considering mandating the provision of cost information but must satisfy itself that accurate cost information is readily available to the dealer to disclose. The IIAC has been arguing for some time that accurate cost information is not readily available. While the IIAC CRM Committee is in favour of the concept, managing the logistics of dealing with return of capital are still enormous.

In any event, consistency between SRO requirements is not only desirable but critical in order for the CRM initiative to be successful.

In addition, using book value for an account as a whole is not an accurate approach. When a security is sold from the account, it is gone, and is therefore not portrayed accurately. The book value also does not indicate the time period that positions have been held. As a result, book value completely misrepresents the performance of the account.

IDA Board Draft Paper: Issues and Alternatives

The IIAC has a number of concerns with matters outlined in the IDA draft Board Paper, under Section B - Issues and Alternatives Considered. In that section, the IDA lists numerous issues raised during the course of their rulemaking consultations and the IDA staff response to these issues.

We would like to also mention at this point the fact that while the Board Paper examines some of the issues raised, there is no discussion of *alternatives* considered. This would have been an appropriate place to discuss the IIAC Alternative Model. Furthermore, the previous draft Board Paper dated February 2, 2007 did discuss a number of alternatives to the proposed performance reporting approaches that have been removed from the current draft.

Returning to the issues portion of Section B, the IIAC, through consultation with our members, believes that many of the IDA staff comments do not appropriately address the issues raised. Many of these same concerns were pointed out in our previous submission, but current responses continue to be less than satisfactory.

Issues raised	IDA staff comments	IIAC comments
Relationship disclosure		
There is no identified demand for enhanced disclosure	A recent survey of 1600 clients that is included in the research study, <i>How Are Investment Decisions Made</i> indicates that a significant number (51% of those surveyed) of Canadian investors	The IDA refers to the research study, <i>How Are Investment Decisions Made?</i> and cites the study's analysis that 51% of Canadian investors want access to more specific investment

Issues raised	IDA staff comments	IIAC comments
	<p>do want access to more specific investment information and would be open to getting that information on-line. It is believed that a similar significant number would be interested in receiving more specific account information.</p>	<p>information. However, the percentage of 51% is far from a persuasive number. More importantly, the survey was not looking at the Relationship Disclosure Document and its content but corporate disclosure documents i.e. documents from the issuer. These have no relevance to the CRM proposal.</p> <p>Members have never been presented with data that indicates that investors have demanded or sought the industry-wide changes that the new RDD would impose. Have there been documented instances where investors suffered because they did not have the information in the RDD? What was the nature and extent of those situations? The IDA needs to provide evidence if this is, in fact, something that investors have demanded rather than anecdotal information. This point was raised by the IIAC in a meeting with the OSC, IDA, MFDA and IFIC on May 16, 2007 but has yet to be addressed.</p> <p>Furthermore, these proposals have been put forward without identifying either the market failure or regulatory failure. In the case of the former, we are unaware of any cogent position having been articulated as to why consumer preferences have not driven a market response. For example, if RDD-type disclosure, performance reporting and cost reporting are important to clients and there is a service gap, one would assume that clients would migrate their business to firms that provide such offerings. Similarly, the process has failed to adequately capture and define the perceived failure in the existing regulatory regime which warrants further intervention. This analysis needs to be conducted and articulated in advance of rule formulations; otherwise, the regulatory proposal</p>

Issues raised	IDA staff comments	IIAC comments
		cannot be measured against the failure which it is intended to address.
<p>There will be increased compliance costs with the implementation of this disclosure and ongoing maintenance.</p>	<p>Increases in compliance costs have been mitigated as much as possible with the elimination of disclosure requirements that much be customized to the specific situation of each client (other than providing the client with a copy of the documented “know your client” information).</p>	<p>As the IIAC has asserted numerous times, our members do not believe that the costs are proportionate to the benefits. For example, since content requirements for the RDD will create an extensive and lengthy document, high mailing costs to and from clients will result.</p> <p>Furthermore, we believe an appropriately conducted cost-benefit analysis (CBA) is a key component to the CRM and are troubled by the delays involved in completing this essential aspect of the project. The IDA is aware that members have repeatedly queried as to why a CBA is being undertaken after the fact rather than prior to embarking on rule drafting. Policy decisions should flow from the results of a cost-benefit analysis. However, in the current situation it appears that the CBA is simply meant to justify the CRM.</p> <p>Furthermore, there has been a lack of articulation as to what the cost-benefit analysis is meant to achieve. How will the benefits be quantified? How will they be measured against the costs? The objectives of the CBA should be clearly set out.</p> <p>The IIAC believes the RDD is still far too prescriptive. This prescription is far reaching - from the description of account relationships, to the process to assess suitability, to the statement on conflicts of interest. Further, the imposition of new compliance and supervision rules along with new systems to address the performance reporting requirements are onerous.</p> <p>In addition, the increased compliance costs are not reduced</p>

Issues raised	IDA staff comments	IIAC comments
There will be an increase in legal liability resulting from this disclosure.	The essential nature of the liability of the firm and the advisers to deal honestly and in good faith with clients will not change.	<p>with the elimination of a few disclosure requirements, customized or not.</p> <p>While the IIAC agrees with the IDA statement that the essential nature of the liability of the firm and the advisor to deal honestly and in good faith with clients will not change, this does not respond to the comment regarding the potential increase in legal liability with the RDD. In fact, page ten of the SRO Account Opening Direction Document, approved by CSA in May 2005, outlined that there would be implications regarding the RDD and clearly states that, “Additional information may change the scope of liability for that additional information.”</p> <p>With the requirement for a client signature or acknowledgment, the RDD would not be a simple disclosure document but an integral part of the contractual relationship with the client and may end up being used against firms in every type of complaint or litigation situation.</p>
Proposed requirements are too prescriptive.	<p>In order to allow a client to compare the account service offerings of more than one Member, the items covered in the relationship disclosure must be prescribed.</p> <p>The number of prescribed items has been reduced under the revised proposal to focus on the CRM core principles.</p> <p>Further, while the disclosure items are prescribed, the form and format of the disclosure has not been prescribed.</p>	This comment is somewhat perplexing as an examination of the details of the RDD reveals that few of the required items have been removed. Further, additional items have now been included, such as those surrounding suitability, statements for trade confirmations and account statements, among others. This issue was outlined in more detail above.
Standardization v. customization of relationship disclosure	The relationship disclosure provided to the client must accurately describe: (a) the account relationship the client has entered into with the Member and, where applicable, the adviser / portfolio manager; and	<p>Firstly, in order to satisfy these requirements, some degree of customization will be required.</p> <p>Secondly, the ability to satisfy these requirements will also lead to entirely new compliance and supervision processes being developed to ensure that the</p>

Issues raised	IDA staff comments	IIAC comments
	<p>(b) the advisory, suitability and performance reporting service levels the client will receive from with the Member and, where applicable, the adviser / portfolio manager.</p> <p>If this can be achieved through standardized relationship disclosure, customization (and the associated costs) will not be a concern.</p>	<p>correct RDD is used by the correct client, that the document is completed accurately, that going forward the client will receive the required information (i.e. ongoing suitability monitoring, updating conflicts of interest, percentage return information, etc.) and that audit trails exist to evidence that the information has been provided to the client, with or without a client signature.</p> <p>Consequently, the associated costs will continue to be a significant concern to members, regardless of the degree to which members choose to customize.</p>
Retail client suitability		
<p>The performance of a periodic suitability review should be dictated by changes in client circumstances</p>	<p>Under the revised proposal, the occurrence of certain events will trigger the need for a suitability review. These events are as follows:</p> <p>(a) An account is opened; or (b) An account is received in via transfer; or (c) There is a change in the adviser responsible for the account; or (d) There is a material change in client information for the account.</p> <p>However, these are not the only situations that would lead to the performance of an account suitability review. The risk associated with account positions and the account as a whole can easily change over time such that the account risk can become out of sync with client risk tolerance. This type of situation should also prompt an account suitability review to the extent a periodic suitability review service is offered to the client.</p>	<p>This new requirement mandates that a suitability review of the account be performed when certain trigger events occurs.</p> <p>However, while the draft rule clearly states this, the comment on here states that “these are not the only situations that would lead to the performance of an account suitability review.” These two statements lead to inconsistencies and confusion and the IIAC requests clarification.</p> <p>Further, this suitability review based on prescribed triggers is a completely new requirement; one which the IIAC believes is a significant change to the current suitability requirements set out in Regulation 1300. Consequently, these amendments should be examined separately and apart from the CRM and outlined in a wholly independent Board Paper.</p>
Account performance reporting		
Account security position cost disclosure		
<p>Maintaining accurate book cost information will be a significant challenge.</p>	<p>This is a significant challenge for Member firms that currently provide cost information to their</p>	<p>The IDA staff comment acknowledges that maintaining accurate book cost information</p>

Issues raised	IDA staff comments	IIAC comments
	clients and will be a significant challenge with implementing this proposal. Accuracy issues arise from issuer initiated cost adjustments (i.e., return of capital distributions), client initiated cost adjustments (i.e., client override of cost information) and distribution reinvestments that are included in the determination of book cost.	will be a significant challenge. However, this comment does not address issues surrounding implementation of such a proposal. We question whether this has been appropriately considered.
It will be difficult to get this information for transferred accounts.	The current automated account transfer system (ATON) does not mandate the exchange of book cost information for all account positions being transferred. The proposal therefore permits the use of market value at the transfer date as a proxy for book cost. An alternative suggestion was to place the onus on the client to provide the book cost information and, if none is provided, leave the book cost column blank.	The IDA simply agrees that ATON does not mandate the exchange of book cost information for all account positions being transferred. As such, how will the correct cost base be determined when securities have been acquired in one account at one firm and transferred to another account at another firm? The cost base of the original transactions do not transfer from one firm to another and consequently, using the original cost for some securities and market cost at the date of transfer for others will result in client confusion, especially for those who hold accounts at numerous firms. Clients will not know or understand if security positions used book cost of the position or transfer cost of the position.
Providing an account cost report should be optional not mandatory.	We believe that providing all clients with some form of performance reporting should be a minimum industry standard. Providing all retail clients with an account cost report along with market value comparatives will equip clients to determine whether they are making or losing money on an individual investment or on their account as a whole.	The IDA response is that providing clients with an account cost report along with market value comparatives will equip client to determine whether they are making or losing money on an individual investment or on their account as whole. The IIAC disagrees. A client needs to understand if they are making or losing money in the context of their risk tolerance and investment objectives. If a client indicated on their KYC that they wished 70% of their investments placed in low risk securities, yet they discover they did not make a 17% rate of return on their investment, they might question their advisors performance. This

Issues raised	IDA staff comments	IIAC comments
		is why placing this information in an account statement is not appropriate. Instead, it is important for clients to have a face to face meeting with their advisor who can put their rate of return into a proper context.
Account activity disclosure		
It is better to provide customers with account activity information than the account security position cost information because it informs the client about account performance over a period of time rather than as at a point in time.	We agree but because it is a more sophisticated report, requiring the retention of a significant amount of historical data to produce, there are greater operational challenges to producing account activity information in comparison to account security position cost information. We believe that both reports would be of use to the client.	The IIAC CRM Committee finds the issues raised and IDA comments provided on the information of account activity information being provided as opposed to account security position cost information somewhat confusing and requests clarification.
Account percentage return disclosure		
Most clients do / do not understand rate of return reporting	<p>The provision of account percentage return information will not be mandatory under the revised proposals. The client will however have to be informed as part of the relationship disclosure whether or not they will receive this information.</p> <p>Views were split on whether clients will understand account percentage return reporting. We believe, while clients may not understand the calculation methodologies used to calculate rate of return information, that clients do generally understand the meaning of rate of return reporting as similar reporting for deposit and debt instruments (i.e., yield reporting) is commonly provided to retail investors.</p>	<p>The IDA staff comment acknowledges that "clients may not understand the calculation methodologies used to calculate rate of return information." We could not agree more. Members of the IIAC indicate that clients often complain about the complexity of current documents and disclosures they receive and the fact that they get little or no 'real' value from them. The documents as proposed are detailed and complex and may be insurmountable for most clients to understand and obtain real value from.</p> <p>Again, this is why allowing the advisor to determine how they communicate information to their clients is more appropriate as the advisor can put the numbers into proper context rather than the rate of return inserted in an annual statement.</p>
Information will allow clients to rate broker performance.	Providing account percentage return reporting to a client will not on its own allow the client to rate broker performance. A full discussion of the report contents with the advisor will better equip the client to rate broker performance.	The IDA agreed with the comment that account percentage return reporting will not allow the client to rate broker performance. Instead, a full discussion of the report contents with the advisor will better equip the client to rate broker performance. Again, this

Issues raised	IDA staff comments	IIAC comments
		supports the IIAC argument that a fulsome discussion between the client and advisor is far more meaningful than putting an account percentage return on an annual statement.

United Kingdom Provisions

The draft Board Paper outlined the United Kingdom’s requirements set out by the Financial Services Authority regarding similar relationship disclosure requirements. The Conduct of Business (COB) requirements should be examined in greater details as it appears that the COBs contain general principles regarding disclosure to clients. The requirements provided information to clients that is not overly complex but is relevant and clear.

Comparison with National Instrument 31-103 RDD

National Instrument (NI) 31-103 also proposes a Relationship Disclosure Document for non-SRO registrants. However, there are some fundamental differences in this RDD. For example, the RDD in NI 31-103 does not require a client signature, acknowledgment or audit trail to evidence the provision of information to the client. This RDD also does not require partner, director or officer approval or the creation of an audit trail to ensure that the information has been provided to a client. The IIAC Alternative Model is more aligned with the approach taken in the National Instrument.

Furthermore, the RDD in NI 31-103 allows for an exemption for accredited investors. We would recommend a similar waiver or exception in the SRO RDD.

It is imperative that the RDD is consistent and harmonized for all registrants before implementation. Again, the alternative proposal represents a better solution.

Cost Benefit Analysis: Client Survey and Interviews

The IIAC notes with interest the comment on page six of the draft Board Paper which states that the intention of a meeting with staff from the IDA, IFIC, IIAC, MFDA and OSC was “to discuss and agree upon a costs versus benefits survey approach to be pursued. No such agreement was reached and therefore no costs versus benefits work have been performed to date.” While there was some discussion surrounding the CBA, the intention of the meeting was to discuss the CRM in general. The outcome of this meeting was that the regulators agreed to examine various options before proceeding any further with this initiative, including determining what problems currently exist in the account opening process and whether the RDD provides the solution.

The IIAC has continually expressed that a CBA is imperative and is an initiative that our members fully support. Members appreciated the opportunity to participate at the

IDA/MFDA/OSC information session held on April 2, 2007 with the Allen Research Corporation. While some member concerns were addressed at that time, there were still a number of outstanding issues that required resolution. These included concerns regarding the sample of clients used, time frames that were initially imposed, client consent, etc. Some of these concerns were raised in our previous comment letter, dated April 23, 2007.

Many members also provided suggestions to revise the wording of certain survey questions and how those questions could be better phrased. To date, we have not heard a response to the suggested revisions nor when and how a CBA will be executed.

Conclusion

While the IIAC and its members generally supports the principles of behind the CRM, our members believe that many concerns and issues that they have raised have not been adequately addressed. We recognize that significant time and resources have been utilized in preparing the draft Board Paper and CRM Rule Proposals, but the drafts of February 2, 2007 and November 21, 2007 contain only minor improvements and fail to address many of the questions raised in the interim period. The concepts of the FDM and the CRM have, throughout the initiative, been consistently and fairly resisted by the industry for all the reasons suggested herein. Simply because a great deal of time and effort has been spent is not a tenable basis for imposing this.

In order for the CRM to be of value to the industry as a whole, the RDD should be crafted as a concise and simple document, focusing on the nature of the relationship between the advisor and the client. As currently drafted, it attempts to spell out every eventuality that may occur in the relationship. This simply does not effectively provide useful and valuable information to the client.

We suggest that it would be beneficial to the CRM rule-making process to discuss our proposals with your staff and to look seriously at the alternative proposed. We look forward to meeting with you at your convenience.