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

Ian C.W. Russell
President & Chief Executive Officer

May 21, 2008

Ms. Susan Greenglass
Manager, Market Regulation
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8

- And -

Mr. Richard Corner
Vice President, Regulatory Policy
Investment Dealers Association of Canada
121 King Street West, Suite 1600
Toronto, Ontario M5H 3T9

RE: Client Relationship Model Proposed Rules

Dear Ms. Greenglass and Mr. Corner:

The Investment Industry Association of Canada (IIAC) is writing on behalf of our membership to express concerns regarding the Client Relationship Model (CRM) Proposed Rules (Proposed Rules) as published in the OSC Bulletin on February 29, 2008.

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. The industry professionals on this Committee are knowledgeable and experienced in the wealth management business, and many of them have been involved for numerous years in this rule-making exercise.

The IIAC Committee also commented extensively on early versions of the CRM in detailed submissions to the Investment Dealers Association of Canada (IDA) in November 2006, April 2007 and January 2008.

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We understand that IDA staff has developed and revised the Proposed Rules based on comments received. However, although we acknowledge that 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 letters have not been addressed.

As stated in our earlier submissions, the members of the IIAC support the three core principles set out in the CRM: clear allocation of responsibilities, transparency and management of conflicts. However, our members do have significant ongoing and fundamental concerns with the CRM and its mandated disclosure document, the Relationship Disclosure document (RDD). While the Discussion Paper that accompanies the rule proposals (Discussion 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 requires the preparation of a lengthy and detailed document which will demand an unreasonable amount of member time and effort to complete and which clients will not likely read. The intended objective of the CRM, to have the client understand their relationship with their adviser, will therefore not be achieved.

The current regulatory regime in Canada is already far too detailed and complex with rules that govern the adviser relationship with clients as well as the internal operations of firms. The proposed CRM simply adds to this regulatory burden.

An imbalance exists between the regulations aimed at protecting the investor and the detailed mass of paper generated by these regulations that most investors do not read. This imbalance has been exacerbated as more regulation is introduced without evidence supporting the need for it. The CRM initiative is a prime example of this. It has been underway for years, yet no cost-benefit analysis (CBA) has been completed to date. The Task Force to Modernize Securities Legislation (Task Force) stated that all new securities regulation be subjected to a rigorous CBA and recommended that "prior to enacting rules to address a market failure, a thorough and systematic review of existing rules should be undertaken to determine whether if enforced, existing rules are adequate."

As the IIAC has stated in our previous submissions to the IDA, the IIAC and our CRM Committee have developed a much abbreviated alternative model to the current (the Alternative Model). The Alternative Model is set out in detail below and a sample version of the Alternative Model is included as Schedule A. To date, the IIAC has not received any response from the IDA regarding this alternative.

IIAC Proposal - Alternative Model

The current mandated disclosure proposed under the Proposed Rules would result in an intricate and excessively detailed disclosure document. This detail cannot replace comprehensive, dynamic and ongoing discussions that already exist between the adviser and the client, where the adviser reviews the client's investment objectives, suitability

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and risk tolerance in the context of their relationship. In this relationship, the adviser must deal honestly and in good faith with his/her clients. The adviser is required to comply with know-your-client and suitability requirements and to observe high standards of ethics and conduct in dealings with their clients. These obligations and responsibilities on the part of the adviser are well-entrenched in the industry today.

Prescribing a relationship in the detail required by the RDD will not change these principles, nor can it replace the fulsome, consultative process that advisers currently engage in with their clients, especially given that the prescriptive items required to be contained in the RDD will result in a lengthy document, likely to be ignored by the client. Some studies, such as those surrounding the point of sale initiative, have questioned the efficacy of detailed disclosure documents and continue to look for means to ensure investors have the access they want to information on a clear and concise basis.

Further, due to the highly prescriptive nature of the proposed RDD, significant and unnecessary costs will result both in terms of members complying with the strictures of the rule and the related regulatory oversight by IDA sales compliance staff.

The IIAC recommends, as an alternative to the overly prescriptive proposed RDD, that a much shorter, standardized and mandated industry-wide disclosure document be created for all account types, which embodies broad concepts instead of minute details. This Alternative Model is the optimal written disclosure document to accompany firm-specific documentation and supplement client-adviser discussions; one that is more meaningful to clients and more cost effective for the industry.

The Alternative Model would:

- provide clear and concise information to all clients;
- articulate the shared responsibility between the client and adviser to manage a successful relationship;
- be a descriptive function rather than establishing new regulatory and contractual obligations through the RDD, representing a service level arrangement between the client and adviser;
- provide for documents and information only if the client wants it: availability would constitute receipt; and
- clarify that policies and procedures surrounding supervision would be left to each member to determine.

The method of delivery under the Alternative Model 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 adviser. This avoids providing clients with a lengthy document that they will likely not read. The onus is therefore placed on the client to engage in a discussion with their adviser and determine the information that they are interested in receiving.

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Other disclosures that are currently mandated would be listed in the Alternative Model 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 Alternative Model itself would be kept to a minimum but firms would have the ability to choose to have additional schedules attached to the Alternative Model that fit their business model.

The scope and application of the Alternative Model would 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 requirements 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, advisers 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 disclosure document will lead to greater clarity and understanding across the investing public. It will act as a complement to the dynamic client-adviser relationship. This shorter, standardized industry document will not attempt to capture the complexities of the client-adviser relationship in a voluminous document but instead outline the key components that must be built upon in this continuous and vibrant relationship.

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

CRM – A Regulatory Solution in Search of a Problem

The mandate of the Canadian securities regulators, including the IDA, is to protect investors and enhance the efficiency and competitiveness of the Canadian capital markets.

The CRM proposals have been an initiative of the OSC since 2001 and more recently the IDA, without the identification of either an actual or perceived market or regulatory failure that requires regulatory intervention through the CRM. 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.

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Secondly, 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.

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/adviser 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 the one completed by the Task Force, have noted that point with respect to other disclosure documents provided to investors, such as prospectuses.

A recent report by the RAND Corporation for the Securities and Exchange Commission[1] supports the argument for a needs analysis and the fact that investors would likely ignore any RDD sent to them. The RAND report is quite extensive, with the primary focus on the differences between the categories of broker-dealer and investment adviser in the United States. However, many of the conclusions reached are relevant to the CRM. For example the report states that investors "expressed high levels of satisfaction" with the services they received from their own service providers and this satisfaction "was often reported to arise from the personal attention the investor receives."[2] Clearly, investors in the U.S. do not believe that there is a gap in the services they receive that requires regulatory intervention. We argue that if such a study was conducted in Canada, a similar result would be obtained. In fact, based on an IIAC analysis of client complaints in the brokerage industry, client dissatisfaction is quite low. In 2006, the IDA's ComSet received 1420 customer complaints. To put these complaints into perspective, there were approximately 60 million retail trades encompassing eight million brokerage accounts in 2006. This would translate into one customer complaint for every 42,000 trades or per 5,600 accounts – an exceptionally low amount.

The RAND report also concluded that participants reported that regardless of the lengths that firms go to make full disclosure, including efforts to produce booklets in plain English, "investors rarely read the disclosures they provide, regardless of how digestible they make these documents". Further, financial service providers stated that "their business relationships with clients are built on trust rather than investor understanding of

[1] See RAND Report, "Investor and Industry Perspectives on Investment Advisers and Broker-Dealers" (January 2008), available at. www.sec.gov/news/press/2008/2008-1_randiabdreport.pdf. The RAND Institute surveyed 654 households, conducted six focus groups, interviewed financial professionals and reviewed thousands of regulatory filings from 2001 to 2006.

[2] *Ibid.* at 113.

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the services and responsibilities involved".[3] These statements support our conclusion that investors are inundated with disclosure materials and therefore most would ignore any RDD that they received.

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 the IDA has 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 Proposed Rules 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 Adviser Consultation process, the IDA received hundreds of written comments. Numerous advisers from different firms participated in that consultation and invested time in providing thoughtful and comprehensive comments. However, the Proposed Rules do not take into account key comments provided. Further concerns with the process are evidenced by the lack of response to the IIAC Alternative 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.

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.

Cost-Benefit Analysis

The IIAC notes with interest the comment on page six of the Discussion 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 has 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.

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[3] *Ibid.* at 117.

The IDA and the OSC have regularly stated since the very early stages of the development of the CRM that a comprehensive CBA, including a client survey, would be conducted. Although the IDA has now prepared the Proposed Rules, a CBA, including the client survey, has not yet been conducted.

The CBA is necessary to ascertain 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 to client needs and wants, thereby negating the need for the CRM. However, a comprehensive CBA would bring investor concerns to light, once and for all.

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 a CBA with the caveat that the industry has some participation in the exercise, and is not simply giving up client names, to safeguard client privacy concerns. Member firms appreciated the opportunity to participate in initial CBA information sessions and have provided comments on the draft client survey 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.

Consistent Application of IDA and MFDA CRM Proposed Rules

The IIAC is concerned that the Mutual Fund Dealers Association (MFDA) and the IDA did not release their Proposed Rules simultaneously. In previous submissions to the IDA, the IIAC raised concerns regarding some of the discrepancies between proposed IDA and MFDA requirements.

It is important that the content of the MFDA's and IDA's CRM Proposed Rules and the implementation process are harmonized, to ensure clients with MFDA firms receive the same protections in terms of mandated services and disclosure as the clients of IDA firms. If there are differences in the content or the timing of implementation, these differences must be resolved before the Proposed Rules are promulgated.

The CSA could play a useful role in promoting uniformity and standardization in the MFDA and IDA rules related to the CRM. Moreover, a lack of uniformity in the Proposed Rules and differences in the timing of implementation create unnecessary inconsistencies between MFDA and IDA members firms. The regulators have an obligation to ensure the equity of regulatory treatment among investment dealer and mutual fund dealer registrants, given the substantial burden of regulatory compliance.

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Implementation Costs

We believe that the implementation and ongoing costs associated with the CRM will be significant across the industry. The CRM rule proposals, if adopted, will have a considerable impact on the operational aspects of members. In order to comply with audit trail requirements and enhanced supervision requirements, various start-up and ongoing maintenance costs will have to be absorbed in areas relating to reporting, systems, data analysis, documentation, operations, supervision and compliance.

Further, with the new requirements for enhanced cost disclosure and performance reporting, there will be operational and supervisory challenges. This encompasses establishing standards around the cost amount to be reported in all circumstances.

In addition, since the RDD will be mandatory for firms, it is unclear whether decentralized generation and delivery at the branch level will be acceptable or whether such documents will need to be produced and mailed to clients from a centralized area in the same manner as for transaction confirmations and account statements.

It is not evident to us that the IDA has carefully considered these major costs and operational challenges.

Impact on Accredited Investors and Financings

The associated costs of implementing CRM will have an impact on one-time clients, which may have a broader effect on the viability of smaller issuers that often need these one time investors to establish a capital base or participate in key rounds of financing. The largest impediment to success of most small issuers is lack of funding. Until firms reach a certain size, they are heavily reliant on friends, family and other associates to provide this much needed capital. Often these people are not active in the market otherwise and may not have the requisite accounts at firms to facilitate share purchases, so they will open an account specifically for a one-off investment.

Firms may decide that it is not cost effective to deal with these types of clients in light of the costs of complying with the CRM. This would leave firms without a means of accessing this capital. Alternatively, these clients, using the accredited investors or those other exemptions to purchase securities may decide they do not want undertake the process involved in opening an account if they have to spend time reviewing a lengthy and detailed RDD.

Not only will this reduce potential for these investors to become long-term clients, but it will have a negative effect on financing for small companies. The resulting economic repercussions for smaller clients and smaller, developing industries could be quite considerable.

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General Comments on the Proposed CRM Rules

Customization

The Proposed Rules purport 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.

Further, the RDD now requires a description of the process used by the adviser to assess the client's investment objectives and risk tolerance. Our members have indicated that this is a highly personalized and customized process, varying among advisers and dependant upon each client's individualized situation.

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

Prescriptive Requirements

The IIAC is of the view that the disclosure requirements are still overly prescriptive. Specifically, page 19 of the Proposed Rules states under section XX05 that the "relationship disclosure document must be entitled 'Relationship Disclosure'". The next provision in that section goes on to outline the requirements to be contained in the "relationship disclosure document". So while there have been statements made by the IDA that the CRM does not prescribe the format of the disclosure, the requirements in the Proposed Rules seem to indicate otherwise. If the IDA is suggesting a flexible approach to meet the disclosure requirements, we would recommend that this be clarified in the proposal.

The Discussion Paper also 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 several additional 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 affect the nature of 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;

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- a description of investment risk factors and types of risks that should be considered by the client when making investment decisions; and
- the methods by which the client can communicate with the firm and the contact points.

However, the new requirements are as follows:

- a description of the process used by the adviser/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 on and potential exposure of members has increased.

Currently, clients receive significant quantities of material in the course of establishing and maintaining their relationship with a firm and adviser. This volume detracts from the concept of disclosure as clients are unable to assimilate all such materials and it is often disregarded or discarded. Our members have advised us that clients have already responded negatively to increased disclosure. As the volume and complexity of required regulatory disclosure increases, so does the risk that clients do not review such disclosure in detail or at all. An additional layer of disclosure will only increase the complexity for the retail investor, particularly smaller investors, to open an account and invest. The RDD proposal as currently constructed adds to this volume and there is a very real risk that it will be viewed as a negative development and will simply be disregarded by clients.

Furthermore, as the IIAC has previously stated, prescribed items in an RDD cannot replace effective communication and discussion between the adviser and the client. There is the implication in the IDA responses to the issues raised, outlined on page 20 below, 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.

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Description of the Services *Not* Offered

The Proposed Rules have been modified so that the ongoing suitability review and account percentage return information are optional on the part of the firm. However, the proposal mandates that the RDD disclose to clients whether or not the member will provide this information to the client. Our members believe it is inappropriate to require firms to advertise the services that a firm does not offer as opposed to what they do offer. We question the benefits of such a provision and suggest it be removed.

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 NI 31-103 does not include a requirement to document that the client has been provided with the required information. Requirements for all securities registrants should be consistent and there is no justification for a different requirement for IDA members.

Updating the RDD

There has been no guidance provided regarding 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

The Discussion Paper states on page 13 under "Systems Impact of Rule" that a "longer relationship disclosure implementation period for existing accounts will lessen the cost of initial compliance."

This is one of the few statements in the entire document that refers to the applicability of the Proposed Rules to existing clients. However, the language in the Proposed Rules, as currently drafted, refers only to "retail clients at the time of opening an account". If the intent is to require members to provide existing clients with an RDD then that

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requirement should be clearly articulated in the Discussion Paper. To require existing clients to enter into an RDD would involve significant time in order to repaper all existing client accounts, as some firms have hundreds of thousands of clients. This would also entail significant cost to the industry and, ultimately, clients.

The Alternative Model would alleviate much of this concern. Members would have the choice of sending a common industry document to all clients or sending or providing existing and new clients with a notice that such a document is available on request.

Account performance reporting

Account performance reporting presents numerous difficulties for firms. Firstly, there are operational difficulties for firms in collecting and organizing the data. Secondly, there are significant cost issues for firms that must adjust their systems in order to ensure that the information they retrieve from their systems is physically organized into some sort of report. Thirdly, there are liability issues concerning the accuracy of the information in cases where the information is used in respect of tax reporting, for example, Finally, there are concerns surrounding the adviser's role in providing and reviewing this information with their clients.

As a result of these issues, the IIAC suggests that the Proposed Rules for account performance reporting be revised in order to allow for the optimum flexibility in what firms provide to clients and how firms provide the information. For example, some firms might feel that using book cost information is most valuable to clients, while other firms, for example those that deal primarily in mutual funds, might believe that a net invested measurement is more appropriate. Clearly, a one-size-fits-all approach will not work in a dynamic relationship where there are constant market changes and system changes. Giving firms the flexibility to offer clients what they believe their clients want is of benefit to everyone in the industry.

Furthermore, the implementation time of any new requirements in the area of performance reporting needs to be as long as possible to allow firms to ensure operational and systems issues are addressed.

Detailed Comments on the Proposed CRM Rules

Definition of "Adviser"

The Proposed Rules uses the term "adviser" in its Rule on *Relationship Disclosure for Accounts Opened by Retail Accounts*. However, nowhere in the current IDA By-laws, Regulations and Polices is there a definition of the term "adviser". Furthermore, the use of this term is inconsistent with the term "Approved Person" in the Rule on *Conflict of Interest Resolution and Disclosure Requirements*.

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We request the use of the term "adviser" be revised to ensure harmonization and consistency with the IDA Rulebook.

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, the 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 Model 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 advisers 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 advisers?

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 adviser/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 adviser engages in this process differently. The process to assess

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

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 advisers 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 adviser and the adviser 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, we question the utility of this requirement.

Ongoing Suitability Review

This suitability review based on prescribed triggers is a completely new requirement. Currently, Regulation 1300.1(p) requires that a member use due diligence to ensure that the acceptance of any order from a client is suitable. The Proposed Rules would move away from a suitability review when a transaction occurs to a suitability review when one of the trigger events occurs. Our members believe this is a significant change to the current suitability requirements. Consequently, these amendments should be examined separately and apart from the CRM and outlined in a wholly independent Discussion Paper.

Specifically, the implications of imposing this new requirement will have a significant impact on firms. In order to ensure that a suitability review is conducted when one of the triggers occurs, members will need to have systems designed to monitor these triggers and ensure the suitability review did in fact occur and was documented in some fashion. Members have stated that there are continuous updates to clients' KYC information that would constantly trigger a suitability review. The operational and tracking systems that would be required will be a considerable cost for firms. As a result, the IIAC suggests that an ongoing suitability requirement be implemented as a best practice recommendation rather than a strict regulatory requirement.

Moving to a best practice would not mean that advisers would not look at the client's suitability from the perspective of the account as a whole. In fact, simply because the current rules are based on suitability review when an order is accepted does not mean that the adviser looks at that order in isolation. To accurately determine if a particular transaction is appropriate, the adviser examines the account as a whole and reviews client holdings in light of the client's financial situation, investment knowledge, investment objectives and risk tolerance.

With respect to the actual provisions contained in the Proposed Rules, the IIAC has some concerns with the specific drafting of some of these provisions, specifically Regulation 1300.1(r) (iii), which states:

(iii) There is (sic) has been a material change to the client's life circumstances or objectives that has (sic) results in revisions the client's "know your client"

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information as maintained by the Member.

We are concerned that this was approved by the IDA Board of Directors on January 30, 2008 without the drafting errors having been identified. The IIAC requests that the IDA review and revise this portion of Regulation 1300.1(r).

The IIAC also questions the practicality surrounding the timing of some of the proposed triggers. For example, as stated in proposed Regulation 1300.1(r), a suitability review of the "positions held in a client's account" is required to occur when a new account is opened. We query how such a review of positions can occur when, typically, a new account is first opened without any securities in the account?

Similarly, the Proposed Rules state that a suitability review should occur when an account is "received via transfer". An account transfer from one member to another does not usually occur all at once. In practice, depending upon the assets held in the account, different securities are transferred in at different times, generally "trickling in". The timing of the transfers can vary by a number of days, with mutual fund assets often taking weeks before being transferred.

As such, we question when does the "transfer" occur in these situations? Would it occur when the first transfer is completed or the last? The IIAC requests that further clarification be given to this suitability trigger. We would suggest that if such a trigger remains in the Proposed Rules a 6-month period be included to allow for the securities in the account to be fully transferred. Similarly, when a new adviser is assigned an account, the adviser should have a 6-month buffer to allow sufficient time for the adviser to conduct a suitability review.

The IIAC would additionally recommend that with respect to the material change trigger, that the wording be revised to refer to material changes to the client's life circumstances or objectives that have been brought to the attention of the adviser.

The IIAC also questions the inclusion of portfolio managers in this suitability review requirement. This appears to be a redundant requirement as Regulation 1300.15(c) currently requires that portfolio managers conduct a quarterly portfolio review.

Conflicts of Interest

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

Where problems arise in the industry, they should be dealt with directly; however, we fail to recognize the regulatory failure in this instance. The IIAC respectfully requests some

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examples of conflicts that are creating issues for clients which this new provision is meant to resolve. Recognizing and disclosing every possible conflict to clients is not the optimal regulatory response.

We also note some inconsistencies in the drafting language of conflicts of interest provisions. Page 7 of the Discussion 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 both the MFDA rule and the proposed rule on page 25 require conflicts of interest 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 Discussion Paper. We request that this inconsistency be resolved.

Reference in the Discussion 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. While we understand that it is important to have uniformity in regulatory requirements, we do have some concerns with the language in the National Instrument. 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 provisions in NI 31-103 and the Proposed Rules appear to broadly require disclosure of member and adviser conflicts of interest, yet there is no discussion of the definition of a conflict to help differentiate between those which may be considered material and those which may simply arise as a matter of course in the industry based on, for example, the method that an adviser is compensated. 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 is not precise enough to ensure that the conflicts net is not cast too widely. Identifying and disclosing these numerous perceived conflicts 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 response. The IIAC and our members welcome the opportunity to better understand and work with the IDA to address conflicts of interest concerns.

Account Security Position Cost Disclosure

The Discussion Paper states that the MFDA is considering mandating the provision of cost information but must satisfy itself that accurate cost information is readily available

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

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.

Book value for individual positions is a useful tool for tax reporting; however, in most instances it provides limited and often misleading information for judging both individual security and overall account performance. On an individual security basis, book value fails to reflect the effects of interest, dividends, and distributions paid or reinvested. In fact, if distributions are being reinvested, as is regularly the case with mutual funds, the book value continues to increase and can cause performance of the investment to appear significantly lower than is actually the case. On an aggregate basis, if performance has been positive and securities that have appreciated in value have been sold, the book value will rise. In these cases, which over time constitute the majority of accounts, comparing the market value of an account to the book value provides absolutely no relevant information regarding account performance. Quite to the contrary, it tends to mislead and confuse clients. Even in circumstances where the book value is an accurate reflection of the percentage gain on an individual security, the book value provides no indication of the time period that position has been held. As a result, book value tends to misrepresent performance of the account.

Account Activity disclosure

The requirement for account book value reporting appears to overlap with the request for cost reporting as part of the account security position cost disclosure requirement.

More importantly, the Proposed Rules contain a requirement to provide performance information on client name assets for which the dealer continues to receive compensation; however, this does not reconcile with other IDA requirements. Specifically, IDA Member Regulation Notice MR-087 prohibits dealers from reporting client name positions on a consolidated client statement in the place of a client statement required under IDA Regulation 200.1. As such, members must continue to provide monthly statements even if the client wants a consolidated statement. Consequently, this leads to an inconsistency between the client holdings currently reported on the client account statement and those proposed to be reported in the account performance reporting. The IIAC is aware that this was discussed numerous years ago at various IDA industry committee meetings but has yet to be addressed. We request that the IDA examine possible solutions to this issue.

Account Percentage Return Disclosure

While the IDA states in its Discussion Paper that account percentage return information will not be mandatory for the time being, the proposed revisions to Regulation 200.1 do

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not make this clear. We request that the section be revised to clarify that this provision is currently optional but will be mandated in the future.

Further detailed comments regarding return disclosure are included in the chart below.

IDA Discussion Paper: Issues and Alternatives

The IIAC has a number of concerns with matters outlined in the IDA Discussion 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 Discussion 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 Discussion 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, *How Are Investment Decisions Made* indicates that a significant number (51% of those surveyed) of Canadian investors 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.	The IDA refers to the research study, *How Are Investment Decisions Made?* and cites the study's analysis that 51% of Canadian investors want access to more specific investment information. However, the percentage of 51% is far from a persuasive number. More importantly, the survey was not looking at the RDD and its content but corporate disclosure documents i.e. documents from the issuer. These have no relevance to the CRM proposal.
There will be increased compliance costs with the implementation of this disclosure and ongoing maintenance.	Increases in compliance costs have been mitigated as much as possible with the elimination of disclosure requirements that must be customized to the specific situation of each client (other than providing the client with a copy of the documented "know your client" information).	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.

Issues raised	IDA staff comments	IIAC comments
		Furthermore, we believe an appropriately conducted 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 undertaking after the fact rather than prior to embarking on rule drafting. Policy decisions should flow from the results of a CBA. However, in the current situation it appears that the CBA is simply meant to justify the CRM. In addition, 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. 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. In addition, the increased compliance costs are not reduced with the elimination of a few disclosure requirements, customized or not.
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.	While the IIAC agrees with the IDA statement that the essential nature of the liability of the firm and the adviser 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

Issues raised	IDA staff comments	IIAC comments
		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." 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.
Proposed requirements are too prescriptive.	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. The number of prescribed items has been reduced under the revised proposal to focus on the CRM core principles. Further, while the disclosure items are prescribed, the form and format of the disclosure has not been prescribed.	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 (b) the advisory, suitability and performance reporting service levels the client will receive from with the Member and, where applicable, the adviser / portfolio manager. If this can be achieved through standardized relationship disclosure, customization (and the	Firstly, in order to satisfy these requirements, some degree of customization will be required. Secondly, the ability to satisfy these requirements will also lead to entirely new compliance and supervision processes being developed to ensure that the 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

Issues raised	IDA staff comments	IIAC comments
	associated costs) will not be a concern.	signature. Consequently, the associated costs will continue to be a significant concern to members, regardless of the degree to which members choose to customize.
Retail client suitability		
The performance of a periodic suitability review should be dictated by changes in client circumstances.	Under the revised proposal, the occurrence of certain events will trigger the need for a suitability review. These events are as follows: (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. 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.	This new requirement mandates that a suitability review of the account be performed when certain trigger events occurs. However, while the draft rule clearly states this, the comment 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.
Account performance reporting		
Account security position cost disclosure		
Maintaining accurate book cost information will be a significant challenge.	This is a significant challenge for Member firms that currently provide cost information to their 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.	The IDA staff comment acknowledges that maintaining accurate book cost information 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. Nor does it address the issue of potential liability in the event that cost or book value is reported incorrectly.

Issues raised	IDA staff comments	IIAC comments
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. To assess account performance, book value cost versus current market value is misleading and completely neglects the importance of time invested combined with the client's risk tolerance and objectives.
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	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

Issues raised	IDA staff comments	IIAC comments
	position cost information. We believe that both reports would be of use to the client.	clarification.
Account percentage return disclosure		
Most clients do / do not understand rate of return reporting.	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. 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.	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. However, more importantly, clients need to understand rate of return performance reporting in the context of their investment objectives and risk tolerance. The difficulty with providing account return data is that given the ever increasing amount of information available to investors, it is difficult for them to synthesize the information and obtain a meaningful interpretation of their account performance. For example, an investor has a medium tolerance for risk and the primary objective of preserving capital. What does a 7% rate of return in 2008 mean? Clearly this is dependent on the relative performance of equity and debt markets in combination with their asset mix as determined by their objectives and risk tolerance. Again, this is why allowing the adviser to determine how they communicate information to their clients is more appropriate as the adviser can put the numbers into proper context rather than the rate of return inserted in an annual statement.
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	The IDA agreed with the comment that account percentage return reporting will not allow the client to rate broker performance.

Issues raised	IDA staff comments	IIAC comments
	discussion of the report contents with the adviser will better equip the client to rate broker performance.	Instead, a full discussion of the report contents with the adviser will better equip the client to rate broker performance. Again, this supports the IIAC argument that a fulsome discussion between the client and adviser is far more meaningful than putting an account percentage return on an annual statement.

United Kingdom Provisions

The Discussion 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 detail as it appears that the COBs contain general principles regarding disclosure to clients. The requirements provide information to clients that are not overly complex but are relevant and clear.

Comparison with Relationship disclosure information in National Instrument 31-103

There are some fundamental differences between the IDA Proposed Rules and the relationship disclosure information provisions in section 5.4 of proposed NI 31-103. The newly re-released proposed NI 31-103 no longer requires a relationship disclosure document. Instead, section 5.4 provides a basic list of information items which will be required to be given to clients. This requirement is flexible in how it is met. In fact, the CSA states that they "anticipate that, in many cases, registrants will be able to satisfy this requirement using existing documents." Separate documents, therefore, can collectively, satisfy the information requirements. This is a far different approach than that found in the IDA Proposed Rules which specifically requires a document entitled "Relationship Disclosure".

In addition, the IIAC applauds the CSA's move to a principles-based approach surrounding relationship disclosure. NI 31-103 now includes a principles-based provision which requires registrants to provide information that a reasonable client would consider important respecting the client's relationship with the registrant.

Further, section 5.4 of NI 31-103 does not require a client signature, acknowledgment or audit trail to evidence the provision of information to the client. The Instrument 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.

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The requirement for relationship disclosure information in proposed NI 31-103 allows for an exemption for permitted clients, a new subset of the accredited investor category. We would recommend a similar waiver or exception in the IDA RDD document.

In addition to these substantive differences, the disclosure items in the proposed NI 31-103 vary somewhat from those listed in the Proposed Rules. For example, the Instrument still requires a discussion surrounding the products and services offered by the firm and how these will meet the client's investment objectives, a discussion of risk factors and types of risk and information about how the client can contact the firm. All these items have been removed from the most recent version of the IDA Proposed Rules. Other items in the Proposed Rules such as the suitability triggers and a description of the process used by the adviser and firm to assess the client's investment objectives and risk tolerance are not included in NI 31-103. It appears that the IDA and the CSA did not discuss and compare their two CRM models as the approach used by the regulators is significantly different.

It is imperative that the RDD is consistent and harmonized for all registrants before implementation. Canadian investors should receive the same disclosure across the regulatory spectrum. Consistency of regulation across all channels is essential. Again, the Alternative Model represents a better solution.

Conclusion

While the IIAC and our members support the principles behind the CRM, we 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 Discussion Paper and CRM Rule Proposals, but the material contains only minor improvements and fails to address many of the questions raised in the interim period. The concepts of the Fair Dealing Model 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 major regulatory initiative.

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 adviser 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.

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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.

Yours sincerely,

Encl.

This letter has the general support of the IIAC CRM Committee. The members of this Committee are as follows:

Don Burwell, Edward Jones
Daniella Dimitrov, Raymond James Financial Services Inc.
Alison Fletcher, Berkshire Securities Inc.
David Malone, RBC Dominion Securities
William McNeill, BMO Nesbitt Burns Inc.
Peter Moulson, CIBC
John Morton, Scotia Capital Inc.
Peter Pacholko, Odlum Brown Limited
Christine Lejeune, National Bank Financial Inc.
Michael Sharpe, Richardson Partners Financial Ltd.
David Pickett, SVP Practice Management, TD Wealth Management

SCHEDULE A
Alternative Relationship Disclosure Document

INTRODUCTION

The purpose of this Relationship Disclosure Document is to help investors clearly understand the nature of the services that will be provided by the firm and adviser and what an investor as the client can and should do to ensure a satisfactory ongoing relationship. This document discusses:

- services and account types,
- products,
- suitability,
- conflict of interest management,
- account fees and charges,
- complaint handling, and
- client transaction and account reporting.

This document will also explain the nature of the roles and responsibilities the client and adviser have to maintain a successful relationship.

SERVICES

Firms may offer one or more of the following account types. To understand which ones a firm offers a client should speak to their adviser.

Advisory *Account*

In an *advisory account* the client is ultimately responsible for investment decisions, although the client can rely on advice given by the adviser. The adviser is responsible for any advice given. In providing this advice, an adviser must meet an appropriate standard of care, give suitable investment recommendations, and present unbiased investment advice.

Order-Execution Service Account

In an *order-execution service account* the adviser does not give any recommendations. As a result, the adviser and firm take no responsibility for the client's investment decisions.

Managed Accounts

In a *managed account* a portfolio manager is given the discretion to make and implement investment decisions for the client within agreed limits. In this type of account the client will not have any decision-making role for individual trades.

ACCOUNT TYPES

Depending on which of the above accounts is right for a particular client, the client may be able to open one or more of the following:

- ☐ Cash Account
- ☐ Margin Account
- ☐ Registered Retirement Savings Plan Account (RRSP)
- ☐ Registered Retirement Income Fund Account (RRIF)
- ☐ Registered Education Savings Plan Account (RESP)
- ☐ Futures Account
- ☐ Options Account

For more information on how the various account types operate, the client should consult an adviser or visit the firm's website.

PRODUCTS AVAILABLE

- Firms generally offer a wide range of investment products. This can encompass, equities, fixed income, money market and mutual funds. For a comprehensive list of the various products the firm offers a client should speak to their adviser or visit the firm's website.
- Products may change from time to time. Clients should talk to their adviser or visit the firm's website.

COMPLAINT HANDLING

A client must be provided with description of the firm's complaint handling procedures and be given a copy of the IDA complaint handling procedures brochure. The client should be advised on how to contact the firm to raise a complaint.

INVESTMENT SUITABILITY

Suitability assessment at time of trade

The regulations of the IDA requires Member firms to use due diligence to evaluate the suitability of any order the firm accepts or recommendation the firm makes based on factors including a client's financial circumstances, investment knowledge, investment objectives and risk tolerance. If the adviser determines that a transaction proposed by the client is unsuitable, they will advise the client of their assessment prior to executing the trade. Moreover, a firm will reserve the right not to accept an order to purchase a security if it is not in keeping with the client's investment objectives. Suitability assessments are made at the time trades are placed.

If a client has an order-execution service account the firm does not take responsibility as to the appropriateness or suitability of the trades to the client's financial situation, investment knowledge, investment objectives and risk tolerance.

CONFLICTS OF INTEREST MANAGEMENT

Conflicts of interest may arise at account opening or while a client's account is held at the firm. Management of conflicts is carried out through disclosure in accordance with securities legislation and IDA by-laws, regulations and policies.

FEES AND SERVICE CHARGES

Commissions

Commissions are transaction related fees paid to the firm at the time of sale or shortly thereafter and which are shared by the dealer with the adviser. In the alternative, a client may pay a single fee, based on the account's total assets, instead of commissions and service charges being levied separately for each transaction in the client's account.

Mutual Fund Fees

[Note: as some firms do not offer all the options below, firms may consider revising the text to discuss generally how advisers are compensated, how fees are charged and that they vary depending on the firm.]

Whether or when a client would be required to pay a direct sales commission depends on the type of mutual fund in which a client invests. **(1) Front-end load fee funds:** A sales commission is deducted from the money the client sends to the mutual fund at the time the fund is purchased. **(2) Back-end load fee funds:** Depending on how a client owns the fund, a sales commission might be deducted when the client sells any or all of their fund position. The fee often declines to zero over a six or seven year period. This sales commission is also known as a deferred sales charge (DSC). **(3) Optional load fee funds:** The client has a choice between paying a front-end load fee or a back-end load fee. **(4) Funds with both loads:** A fund may have both a front-end load fee and a back-end load fee. **(5) No-load fee funds:** No commission is payable at the time of fund purchase or sale. A client may also be required to pay an additional charge if the client sells a mutual fund within a short time of purchasing the fund. A number of mutual funds permit the client to redeem up to 10% of the fund annually without paying any fees. However, each fund company has their own method of calculation. Generally, a client can switch funds within the same family without incurring a redemption charge.

ACCOUNT REPORTING

Transaction and statement reporting

The client will receive written confirmation of all transactions in their account. The client will also receive account statements when there is a transaction during the month and on a quarterly basis regardless of account activity.

Annual Portfolio Review

The adviser may provide the client with an annual portfolio review when the client can discuss the performance of the client's account or portfolio. During these discussions the adviser may provide the client with various reports such as a cost report performance report. The client can discuss with their adviser whether these reports are produced on an account, portfolio or household basis and the costs to receive them. These reports will help a client to know how their account is doing.

A firm may offer to provide the client with a percentage return report. The adviser can discuss such a report with the client and the cost to receive the report.

A firm will not provide these reports if a client has an order-executive service account.

CLIENT RESPONSIBILITIES

A firm needs the client's help to ensure that the relationship with their adviser is positive and results in the services that the client needs and wants. The client has responsibility to make sure this happens. The client should:

□ Provide a full and accurate description of their financial situation, investment objectives and risk tolerance to their adviser to assist him/her in meeting the client's investment goals.

□ Promptly inform their adviser of any material changes to their life circumstances or investment objectives. A "material change" is a change to any information that could reasonably result in changes to the types of investments appropriate for a client, such as income level, investment objectives, risk tolerance, time horizon or net worth. Examples of such changes would include changes in employment, marital status or retirement plans.

□ Review all account documentation, sales literature and other documents provided by the adviser.

□ Understand all costs and fees associated with the services a client will be provided.

□ Be proactive - ask questions and request information to resolve any questions the client may have about the account, specific transactions or investments or the client's relationship with their adviser.

□ Be cognizant of potential risks and returns on investments.

□ Communicate in writing you client's expectations for the adviser and/or firm.

□ Contact the branch manager if displeased with answers or explanations from the adviser.

□ Ensure payment for transactions is made by the settlement date.

□ Review all confirmations and account statements promptly and carefully in order to report any errors within the time limits prescribed on the documents.

□ Review account/portfolio holdings on a regular basis and discuss them with the adviser.

□ Consult the appropriate professional such as an accountant or a lawyer for tax or legal advice.

AGREEMENTS AND DISCLOSURES

The following agreements may be entered into depending on the type of account(s) the client opens.

(i) Joint Account Agreement
(ii) Margin Agreement, to be obtained before a margin account is opened
(iii) Discretionary Account Agreement in compliance with Regulations 1300.4 and 1300.5
(iv) Managed Account Agreement in compliance with Regulations 1300.7 and 1300.8
(v) Options Trading Agreement in compliance with Regulation 1900.6
(vi) Futures Contracts and/or Futures Contracts Options Trading Agreement in compliance with Regulation 1800.9

(vii) Consent to electronic delivery of documents
(viii)Trading Authority Agreements
(ix) Power of Attorney Agreements

The following disclosures are required to be provided to the client by their adviser:

(i) Leverage Risk Disclosure Statement in compliance with By-law 29.26
(ii) Futures risk disclosure statement in compliance with Regulation 1800.2(e)(ii)
(iii) Options risk disclosure statement in compliance with Regulation 1900.2e)(i)
(iv) Introducing/carrying broker disclosure in compliance with By-law 35
(v) Alternate dispute resolution brochure in compliance with By-law 37.3
(vi) Shared premises disclosure in compliance with Policy 1
(vii) Strip bond information statement
(viii) Statement of policies
(ix) Service fee schedule
(x) Referral fees
(xi) Principal/Agent disclosure in compliance with By-law 39, Appendix B

CONTACT INFORMATION

We encourage you to contact your advisor or the branch manager if you have any questions or concerns with respect to your account or the services provided.

[Firm to provide mailing address/phone/facsimile/e-mail address for clients.]

You may also wish to contact our Client Services Department.

[Firm to provide mailing address/phone/facsimile/e-mail address for clients.]

If you are unsatisfied with the response you receive, you may wish to contact the Compliance/Legal Department.

[Firm to provide mailing address/phone/facsimile/e-mail address for clients.]

If you need assistance in settling a matter with our firm, you may send a written complaint to the Investment Dealers Association. Other options include contacting the Ombudsman for Banking Services and Investments (OBSI) or engaging in arbitration or court proceedings.

[Firm to provide IDA brochure and contact information of the nearest IDA office.]