



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

Ian C.W. Russell
President & Chief Executive Officer

August 18, 2008

Ms. Sarah Corrigall-Brown
Senior Legal Counsel
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142, Pacific Centre
Vancouver, British Columbia V7Y 1L2

- And -

Mr. Gregory J. Ljubic
Corporate Secretary
Mutual Fund Dealers Association of Canada
121 King Street West, Suite 1000
Toronto, Ontario M5H 3T9

RE: Client Relationship Model Proposed Rules

Dear Ms. Corrigall-Brown and Mr. Ljubic:

The Investment Industry Association of Canada (IIAC) is writing on behalf of our membership to respond to the request for comments from the Mutual Fund Dealers Association (MFDA) on its proposed amendments to MFDA Rules 2.2, 2.8 and 5.3 (the Rules) and MFDA Policy No. 2 as they specifically relate to implementing various aspects of the Client Relationship Model (CRM) project.

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 has also commented extensively on early versions of the CRM in detailed submissions to the Investment Dealers Association of Canada (now the

.../2

Investment Industry Regulatory Association of Canada (IIROC)) in November 2006, April 2007 and January 2008.

The IIAC also recently submitted a detailed CRM comment letter to IIROC in May 2008 as a result of IIROC's request for comments. For your consideration, we are including a copy of this comment letter as many of the points raised therein are relevant to the MFDA's proposed amendments pertaining to the CRM.

Specifically, we turn your attention to the following sections in the IIAC response letter to IIROC:

- the IIAC Alternative Model, discussed on page 3 and attached as Schedule A;
- CRM – A Regulatory Solution in Search of Problem, page 4;
- Cost-Benefit Analysis, page 6;
- Consistent Application of IDA and MFDA CRM Proposed Rules, page 7;
- Description of Products and Services, page 13;
- Description of the Account Relationship, page 13;
- Ongoing Suitability Review, page 14;
- Account Security Position Cost Disclosure, page 16;
- Comparison with Relationship Disclosure Information in NI 31-103, page 24.

The Association believes that these above items are directly relevant to the MFDA CRM and outline concerns of our members with both the process surrounding the development of the CRM and some of the specific details relating to relationship disclosure and performance reporting.

The IIAC was pleased to note that the MFDA CRM has removed certain previously prescribed disclosure requirements, recognizing that they are duplicative of existing requirements under securities legislation, other MFDA Rules or other ongoing regulatory initiatives. We agree with the MFDA's view that where the MFDA has existing rules in areas relating to conflicts of interests, service fees, complaint handling procedures, etc. it seems unnecessary to require a descriptive statement be contained in the account opening materials describing this requirement when a client will already receive the relevant information.

Further, we would like to commend the MFDA on its more flexible approach to the CRM. Specifically, the IIAC believes that the MFDA approach to relationship disclosure is an improvement upon the IIROC approach, the latter requiring the preparation of an overly prescriptive and detailed relationship disclosure document.

Allowing members to provide the relevant disclosure to clients in one document or several is an approach that recognizes that some members may already meet the requirements outlined in the proposed amendments. Consequently, they would not be required to revise their account opening documentation to create a new document entitled "Relationship Disclosure" as required under the current IIROC proposal.

.../3

Further, this approach is more in line with the approach taken in proposed National Instrument 31-103 *Registration Requirements* (NI 31-103), relating to the relationship disclosure information provisions in section 5.4 of the Instrument.

However, we do note that there are differing disclosure items in the MFDA's proposed rules and section 5.4 of NI 31-103.

More importantly, as the MFDA is aware, the IIROC CRM contains some fundamental differences to the approach used by the MFDA. These include some of the following:

- format of the relationship disclosure document
- content of the relationship disclosure
- review of relationship disclosure materials
- client acknowledgment of receipt of the relationship disclosure
- performance reporting

Some of the differences are briefly highlighted in the comparison chart attached.

It is important that the CRM requirements are 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. When dealing with registrants in the marketplace, it is imperative that these investors receive a comparable standard of protection in terms of mandated services and disclosure, regardless of whether they are dealing with a registrant under the jurisdiction of the MFDA, IIROC or the securities regulators. The regulators have an obligation to ensure the equity of regulatory treatment among investment dealer, securities dealer and mutual fund dealer registrants, given the substantial burden of regulatory compliance.

We encourage the MFDA to continue an open dialogue with IIROC and the Canadian Securities Administrators to ensure that a consistent and a harmonized approach is taken to the CRM.

Conclusion

While the IIAC and our members support the principles behind the CRM and note that the MFDA has made great strides in improving the CRM from earlier versions of the CRM proposal, we believe that there are still a number of concerns and issues that require further consideration to better meet the needs of both members and their clients.

We would be more than pleased to discuss our submission with MFDA staff and provide further input. . We look forward to meeting with you at your convenience.

Yours sincerely,



Encl.

IIROC and MFDA Comparison– Client Relationship Model

Content of relationship disclosure	IIROC	MFDA	Comments
(a) A description of the products and services offered by the Member.	Required	Required	
(b) A description of the account relationship.	Required	Required	
MFDA: A description of the Member’s procedures regarding receipt and handling of client cash and cheques. For Level 2 deal, disclosure must include explanation that all client cheques are payable to issuer or carrying dealer.	No requirement	Required	New MFDA requirement
(c) Where applicable, a description of the process used by 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 “know your client” information that is obtained from the client and documented at time of account opening and when there are material changes to the information;	Required	Define various terms with respect to KYC information collected by the member and describe how this information will be used in assessing investments in the account.	Difference in language
(d) A description of the Member’s minimum obligations to assess the investment suitability: (i) Prior to recommending an investment to the client; and (ii) When one or more of the following trigger events occurs: (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.	Required	(d) A description of the Member’s obligation to ensure that each order accepted or recommendation made is suitable for client and advising when the member will assess the investment suitability: (A) No requirement when account opened (D) Whenever the member becomes aware of a material change in client information	Slightly different requirements
(e) A statement indicating whether or not ongoing monitoring of the suitability of the investments held in the account will be an option available to the client as part of the account service offering and, if so, the annual	Required	No requirement	

Content of relationship disclosure	IIROC	MFDA	Comments
cost of such service.			
(f) A statement indicating Member and adviser conflicts of interest and stating that future conflicts of interest situations, where not resolved, will be disclosed to the client as they arise.	Required	No statement required as duplicative of Rules	MFDA Rule 2.1.4 contains conflict of interest disclosure requirements
(g) A description of all account service fees and charges the client will or may incur relating to the general operation of the account.	Required	No statement required as duplicative of Rules	MFDA Rule 2.4.3 contains requirements on written notice service fees
(h) A description of all costs the client will or may incur in making and holding investments by type of investment product.	Required	No requirement	Different requirement
(i) A statement indicating when trade confirmations and account statements will be sent to the client.	Required	A description of the content and frequency of reporting for the account	Slightly different language
(j) A description of the Member's minimum obligations to provide performance information to the client and a statement indicating when account position cost and account activity information will provided to the client.	Required	No statement required	While MFDA requires that clients are provided with account performance, reporting is more flexible, especially regarding rate of return information
(k) A statement indicating whether or not the provision of account percentage return information will be an option available to the client as part of the account service offering and, if so, the annual cost of such service.	Required	No requirement	Different requirement
(l) A listing of the account documents required to be provided to the client with respect to the account.	Required	No statement required as duplicative of Rules	MFDA Rules require clients receive appropriate account documents
(m) A description of the Member's complaint handling procedures and a statement that the	Required	No statement required as duplicative of Rules	MFDA Rule 2.11 requires members

Content of relationship disclosure	IIROC	MFDA	Comments
client will be provided with a copy of an approved complaint handling process brochure at time of account opening.			have policies and procedures for handling complaints and complaints dealt with promptly.
A description of the nature of the compensation that may be paid to the Member and referring the client to other sources for more specific information.	No requirement	MFDA requirement	Different requirement
Format of relationship disclosure			
(1) The format of the relationship disclosure is not prescribed but must be in writing and include all required content set out in Section XX05. (2) The relationship disclosure document must be entitled “Relationship Disclosure”.	Required	Disclosure may be provided to clients in one document or several, as long as information is provided at account opening.	Different requirement. MFDA adopts flexible approach.
Review of relationship disclosure materials			
Must be approved by partner, director, officer or branch manager. If document is standardized must be approved by head office and manager must ensure correct document is used in each client circumstance. If RD is customized, manger must approve each document.	Required	No requirement	MFDA does not require these supervisory procedures (as a result of not requiring a RD).
Client acknowledgement of receipt of relationship disclosure			
Member must maintain audit trail to evidence information is provided to client. Client signature acknowledging receipt is preferred. If no signature, some other method must be used.	Required	No requirement	MFDA does not require maintaintence of audit trail.
Performance Reporting			
(1) Account security position cost disclosure on annual basis.	Required	No requirement	Different requirement
(2) Account activity disclosure on annual basis detailing activity in the account	Required	Required but MFDA does not require a cumulative account activity report as well.	Slightly different requirement
(3) Account percentage return disclosure	Optional but if provided	Optional and if provided then mandates that	Different approach to

Content of relationship disclosure	IIROC	MFDA	Comments
	then mandated calculation and disclosure standards must be used.	calculation is in accordance with standard industry practices. Also, if rate of return is provided then member not required to send other account performance reporting information.	mandating calculation method.