

*Phase 2 of the
Client Relationship Model (CRM2):*
WHAT IIROC ADVISORS NEED TO KNOW

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Our Speakers...



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Agenda

- Welcome from Fred Ketchen
- What Is the Client Relationship Model?
- CRM1 – Quick Refresher
- CRM2 – The Basics
 - Three Phases
 - July 2014 Requirements
- Your Time for Questions
- Key Takeaways
- Resources

WHAT IS THE CLIENT RELATIONSHIP MODEL (CRM)?

What is CRM?

- Ten years of extensive change
- From retail account-opening...
- ... to ongoing transaction and account reporting
- CSA vs IIROC Rules

CRM1 – QUICK REFRESHER

Client Relationship Model, Phase 1

- CRM1 implemented between 2012-2014
- Three parts:
 - Relationship disclosure
 - Conflict of interest disclosure
 - Enhanced suitability review

Relationship Disclosure – What’s New?

Q: My firm mailed a Relationship Disclosure (RD) to all my clients and I give it to each new client. Why’s it so important?

A: Showcases advisor professionalism and advisors can use it as tool to build trust

An all-in-one convenient “owner’s manual” defining client-advisor relationship

Managing expectations protects clients, advisors, firms

CRM2 link: References reporting clients can expect, benchmark use to assess performance

Conflicts of Interest Disclosure – What's New?

Q: I was already telling my clients whenever a conflict of interest exists. What's different?

A: Conflicts of interest inherent in investment business; clients must consistently receive same disclosure whether PM, IIROC, MFDA, or exempt dealer – when client opens account and for transactions with possible conflicts

CRM2 link: Fees paid by issuer, that appear not to be paid by client, may need to be disclosed

Enhanced Suitability Reviews – What’s New?

Q: I’ve been doing suitability reviews for a long time, so how do the new requirements improve things?

A: Rule was based on trade, suitability as stand-alone transaction, and in context of other holdings vs KYC

Now suitability required irrespective of trade (e.g., Nortel, RIM material risk change)

Most firms will automate supervision systems but such systems built off imperfect risk ratings

CRM2 link: More trades, more pre-trade disclosure

CRM2 – THE BASICS

CRM2 Objectives

- OSC research shows investors care about:
 - How am I doing?
 - What is it costing me?
- CRM2 is about:
 - Transparency, clarity
 - Providing context for an investor's decision
 - Disclosure and meaningful reporting on performance

The Typical Regulatory Iceberg...



... The CRM2 Iceberg



CRM2 – THREE PHASES

CRM2 Timeline at a Glance

July 2014

- benchmark explanation in RDI
- debt security cost disclosure on trade confirmations
- pre-trade cost disclosure for all transactions

July 2015

- enhanced quarterly account statements
- includes position cost
- includes market value
- includes client name securities

July 2016

- new annual cost and compensation report
- new annual performance report
- all transaction costs, including DSC, on trade confirmations

2014

2015

2016

CRM2 – July 15, 2014

- More pre-trade cost disclosure
- New debt security cost disclosure on trade confirmations
- Explaining the use of benchmarks in RD

CRM2 – July 15, 2015

- Enhanced quarterly account statements
 - Position cost information
 - Market value information
 - DSC and investor protection notations
- Client name securities to be reported

CRM2 – July 15, 2016

- New annual report on total fees and charges
 - With “other compensation”, explanations
- New annual report on account performance
 - Percentage returns for 1-, 3-, 5-, and 10-year periods and since-account-opening
- Expanded trade confirmations
 - all transaction-related fees, including DSCs

A Word about Words...

- CRM2 is about communicating with your clients on a basis that they understand
- Plain language, charts and graphs
- Spread, mark-up/-down, charge, **commission**
- **Client-name** vs. off-book
- Trailer: **fee for advice and other services**
- Others?

JULY 2014 CRM2 REQUIREMENTS

1. PRE-TRADE COST DISCLOSURE

IIROC ADVISOR Qs & As

Pre-Trade Cost Disclosure

– The Basics

Q: What is pre-trade cost disclosure?

A: Before a trade, retail clients must be told all direct and indirect transaction charges (or estimates in \$)

Account operating costs not related to a transaction and separate disclosure applies

Direct charge: out-of-pocket, debit to client account (with applicable tax)

Indirect charge: reduces value of the investment

Pre-Trade Cost Disclosure

– All Clients/Companies/Advisors?

Q: Are there exceptions/exemptions/exclusions from CRM2 in terms of:

- Types of clients?

A: CRM2 applies to all retail clients

- Types of companies and advisors?

A: CRM2 applies to all registrants – IIROC, MFDA and exempt market dealers and advisors (also in bank branches), portfolio managers

Pre-Trade Cost Disclosure

– All Revenue Types?

Q: Are there exceptions/exemptions/exclusions from CRM2 by:

- Types of revenue?

A: Foreign exchange spreads and other hard-to-measure compensation are excluded

- Types of investments?

A: Securities regulators regulate securities; speak to your firm about other holdings

Pre-Trade Cost Disclosure

– All Account Types?

Q: Are there exceptions/exemptions/exclusions from CRM2 by:

- Types of accounts?

A: Best practice is to disclose pre-trade regardless of account type or where held
Speak to your firm

Pre-Trade Cost Disclosure

– All Channels?

Q: Are there exceptions/exemptions/exclusions from CRM2 by:

- Different channels?

A: Pre-trade disclosure applies whether a firm is full-service or online discount broker

How the disclosure is made may differ, with electronic options ultimately, but possibly workarounds to start

Pre-Trade Cost Disclosure

– How Detailed?

Q: Do I have to calculate exact amounts?

A: That's best; if not, provide an estimate in \$

Q: Do I have to repeat disclosures in full for clients every time, even if they trade a lot?

A: Speak to your firm; at the very least, until evident that the client understands

PRE-TRADE COST DISCLOSURE – BY TYPE OF SECURITY

Pre-Trade Cost Disclosure

– Public and Corporate Debt

- Commission in dollars

Or, if actual commissions are not available

- A reasonable dollar estimate, such as \$10 per \$1,000 (or equivalent)

Pre-Trade Cost Disclosure

– Equities, Warrants, Rights, Options

- Commission paid by client

Or, if actual not available

- An estimate (e.g., \$10 per \$1,000)

Pre-Trade Cost Disclosure

– Mutual and Other Investment Funds

- On sales
 - Sales charge
 - If there's a DSC, that there is and schedule
 - That there is trailer paid for advice, services
- On switch, any fees
- On redemption, DSC if any

Pre-Trade Cost Disclosure

– New Issues

Q: Will new issue commissions be identified, even if the issuer pays?

A: Please refer to your firm for guidance.

As well, you may need to disclose conflicts of interest that may exist vis-à-vis the issuer and your firm or you.

Pre-Trade Cost Disclosure

– Account Transfers

Q: How do the rules apply in the case of account transfers, for example:

- Transfer fees?

A: No disclosure needed as not a transaction

- When assets are liquidated?

A: Best to transfer in kind, but if must liquidate, best practice is for both receiving and relinquishing broker to advise

Pre-Trade Cost Disclosure

– Odds and Ends

Q: Is there anything else? For example, what about referral fees?

A: NI 31-103 governs referral fees and written client acknowledgement is required.
Speak to your firm about its policies.

2. NEW DEBT SECURITY DISCLOSURE – TRADE CONFIRMATIONS

Debt Security Trade Confirmations

Q: I understand trade confirmations for debt securities will now disclose commissions. Is this true?

A: Yes. Under CRM2, confirms must disclose, in addition to yield to maturity, either:

- total compensation, OR
- commission paid to the dealer and advisor AND notice if the price may include additional compensation

3. EXPLANATION OF BENCHMARKS – RELATIONSHIP DISCLOSURE

Explaining Benchmarks

Q: Do we have to provide benchmarks?
What must be disclosed and where?

A: You must tell clients how benchmarks can help them assess performance and if your firm provides benchmarks.

Speak to your firm about its plans.

Avoid these consequences of CRM2:



Your clients

This is a nasty surprise

I'm confused

I'm really concerned



Your compliance guy

I don't want to get sued!

Client experience is not my problem

My clients will head for the hills

How am I supposed to run a business with all these distractions?!?



Your advisors

This is the straw that broke the camel's back. I'm through!

YOUR TIME FOR QUESTIONS

Key Takeaways

- Speak to your firm about its CRM2 implementation plans
- Educate yourself on your responsibilities – and think about HOW to talk to your clients
- Document, document, document
- Understand what each client values in the relationship – and what you offer them
- Consider your client communications strategy

Resources

- To access this webinar for IIROC CE credits, visit Investment Executive's [CE Place](#)
- For information on the value of the advisor and advice, visit IFIC's [Value of Advice](#)
- For tools and templates for advisors and others, visit IIAC's Member-only [CRM at Your Fingertips](#) webpage
- To join an IIAC CRM2 Committee, email rsvp@iiac.ca