



Client Relationship Model Panel Discussion

November 8, 2012

CRM Panel Speakers

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Introduction to CRM

Core elements of CRM include:

- Relationship Disclosures – New Rule 3500
- Account Suitability – Amended Rule 1300.1
- Conflicts of Interest Management & Disclosures –
New Rule 42
- Account Performance Reporting – Amended Rule 200

What is the Objective of CRM?

CRM is intended to enhance the “client-advisor” relationship by:

- Providing greater disclosure requirements for Firms/Advisors
- Enhancing the standards Firms/Advisors must meet when assessing the suitability of investments for their clients

CRM: What is changing?

Nothing:

- Many of the new & amended rules reflect existing standards already in practice

Everything:

- IIROC is now “codifying” these standards and spelling out the requirements - in writing
- Firms/Advisors will be held accountable to these standards and tested against them
- Changes will have a direct impact on policies & procedures, account opening & documentation, client complaint handling, and account reporting

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Enhanced Account Suitability

Enhanced Suitability Requirements (March 23, 2013 Implementation)

- In addition to the current requirements to ensure that a recommendation is suitable for the client based on factors including:
 - client’s current financial situation
 - investment knowledge
 - investment objectives
 - risk tolerance
- Firms/Advisors will also need to specifically assess a client’s **time horizon** (i.e., when a client will expect to require access to some or all of their funds) and the accounts current investment portfolio composition and **risk level**.

Enhanced Suitability Requirements (March 23, 2013 Implementation)

- New Trigger Events requiring a suitability analysis to be performed include:
 - **Securities are received into the client’s account by way of deposit or transfer;**
 - There is a change in the Registered Representative or Portfolio Manager responsible for the account; or
 - There is a material change in to the client’s life circumstances or objectives that has resulted in revisions to the client’s “know your client” information as maintained by the Dealer Member;

Enhanced Suitability Requirements Implementation Challenges

1. Policy Updates and Training

- Decide under what situation and when suitability needs to be addressed
- How will you identify these situations
 - Risk of security/product
 - Risk of Client Profile
- How will you track and document these reviews
- How will Head Office and branch level staff be trained to understand the new requirements

Enhanced Suitability Requirements Implementation Challenges (cont.)

2. Process/System Changes

- to identify “security transfers” trigger event
- to capture a client’s time horizon
- to determine specific client “risk profile”
- to determine specific “risk” of individual securities
- to identify potentially “unsuitable” trades (risk of security versus client profile)
- to ensure downstream systems still function after all the changes

Enhanced Suitability Requirements Implementation Challenges (cont.)

3. Documentation

- Evidencing the “work” that has been done
 - Potentially “high risk” securities
 - Advisor “review” of suitability
 - Branch Manager oversight
- Storing/retrieving the “work”

Client Profile Suitability Considerations

Age	Time Horizon	Income
Investments/ Liabilities – Net worth	Risk tolerance-(\$ willing to lose)	Investment Objectives
Financial needs	Investment experience	Liquid Assets
Tax Status	Occupation/ Profession	Borrowing (Rent or Own)
Education	Marital status	Leveraged
Health status	Unique circumstances	Spouse Profession
Liquidity needs	Dependents	Credit Rating

Security Risk Factors

<u>Country</u>	<u>Market</u>	<u>Currency</u>
<u>Equity</u>		
Volatility	Liquidity	Beta/Greeks
Share Class (common vs pref)	Market capitalization	Industry Sector
Management	Profitability	P/E
<u>Fixed Income</u>		
Bond Ratings	Currency	Duration
<u>Mutual Funds</u>		
Prospectus Rating	Morningstar/Lipper	Asset classes

Account Performance & Cost Reporting

Account Performance & Cost Reporting Requirements

It is expected the new requirements will include the following:

- Trade confirmations to disclose fixed income commission
- Client account performance reports disclosing annual and cumulative realized and unrealized income and capital gains
- Client Name (off-book) reporting on Firm statements.
- Client account “cost” reports (i.e., all fees/costs generated)
- Client account performance reports itemizing account annualized compound percentage return information

**Final requirements expected in early 2013 with effective date of ????*

Account Performance & Cost Reporting “Common” Implementation Challenges

- Technology/Operational Costs and Complexity
- Funding and prioritization???
- Completeness and accuracy of daily security pricing feeds/transaction codes?
- Canadian \$ versus multi-currency (ROR/Cost)
- Ability to process back-dated transactions and prices, rerun capabilities?
- Client/Branch education & ongoing questions
- Reporting delays

Account Performance

Specific Implementation Challenges

- Dollar versus Time Weighted ROR calculation?
- Securities valuation policy changes (bid versus close)?
- ROR for Client (Off-Book) accounts?
- Monthly Pricing/ROR data integrity validation
- Prospective versus Historical ROR data
- Back-office staff to provide “answers”

Cost Reporting

Specific Implementation Challenges

- Tracking CDN\$ “book cost” for non-CDN\$ accounts
- Significant changes to multiple systems
 - Trade confirm/statements/client online
 - Mutual fund, New Issues, Fixed Income, FX
 - New “cost” (fees/charges) report
- New industry infrastructure required
 - Mutual fund trailers at account level

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Relationship Disclosure

www.compliancesupport.ca

Relationship Disclosure

Rule 3500 – sets minimum standards for client/firm relationship disclosure to be provided to clients at account opening. The policy rationale underlying the Rule is that all clients should have a good understanding of the services they will be provided when they open an account.

Key Points:

- Applies only to Retail Clients
- Becomes effective on **March 26, 2013** with regard to new clients of a Dealer Member and on **March 26, 2014** for existing clients.*

Relationship Disclosure

Form and Format of Disclosure

Somewhat flexible but:

- Must be entitled “Relationship Disclosure” and be in writing
- Must be in plain language
- Must contain all required elements of rule 3500.5:
 - a) A description of the types of products and services;
 - b) A description of the account relationship;
 - c) A description of the suitability assessment process including:
 - Approach used for determining the usual KYC criteria
 - A statement indicating when suitability will be assessed (prescribed)
 - A statement whether or not the suitability will be reassessed at other times (e.g. significant market fluctuations or portfolio “drift”);

Relationship Disclosure

Form and Format of Disclosure (Cont'd)

- A description of client reporting to be provided including:
 - A statement indicating when confirmations and statements will be provided;
 - A statement of firm's minimum performance reporting obligation and a statement indicating when account position cost and account activity information will be provided;

Relationship Disclosure

Form and Format of Disclosure (Cont'd)

- A statement indicating whether account percentage return will be available to the client;
- A description of client reporting to be provided
- A statement indicating when confirmations and statements will be provided
- A statement of firm's minimum performance reporting obligation and a statement indicating when account position cost and account activity information will be provided

Relationship Disclosure

Form and Format of Disclosure (Cont'd)

- Existing conflicts of interest and that existing and potential material conflict of interests will be disclosed as they arise;
- Service fees and charges relating to the account;
- All charges the client will or may incur in making, disposing and holding investments by type of investment product;
- A listing of the documents to be provided to the client with respect to the account; and
- A description of the Firm's complaint handling procedures and a statement that the client will be provided with a copy of an IIROC approved complaint handling process brochure.

Relationship Disclosure

Issues and Questions

- IIROC expectations for length and level of detail?
- One general RD document or one for each account type?
- Per client or per account?
- Separate document or incorporate into terms and conditions?
- Signature or no signature?
- Level of detail required in describing account types and products?
- Level of granularity in describing fees? What if fees negotiable as with some fee-based or discretionary accounts?
- Electronic availability?

- Is there interest in exploring some form of risk rating standard for securities?
- Please email the IIAC if you are interested.
- Contact info: awalrath@iiac.ca