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Client Focused Reforms – Proposed Guidance on Know-your-client and Suitability Determination
https://www.iiroc.ca/news-and-publications/notices-and-guidance/client-focused-reforms-proposed-guidance-know-your

Thank you for the opportunity to provide an input on these proposals.

Here are some of my thoughts on the proposals:

1. The account opening document should make it clear that the information collected will be used to make suitable investment recommendations and as a defence in the event of a complaint. A signed and dated copy of the KYC form should be provided to the client.
2. According to the Small Investor Protection Association (SIPA) research and the research of others, the KYC capture process has many flaws that need repair. See *The Know Your Client Process Needs an Overhaul*: SIPA https://www.sipa.ca/library/SIPAsubmissions/500%20SIPA%20REPORT%20-%20KYC%20Process%20Needs%20Overhaul%20-%20201607.pdf I assume these processes are in the process of being upgraded to comply with the enhanced CFR requirements. See also the REFERENCE paper .
3. I recommend that year end accounts statements include a prompt requesting the client to inform the dealer of any significant changes in personal situation that could impact investment choices.
4. Should risk profiling not include the <u>need</u> for risk taking? There are many instances where an individual has sufficient savings, pension, investments etc. such that they need not take any investment risk.
5. I recommend that investment knowledge be tested to support an opinion by an advisor . For example, knowledge quiz - Canada.ca https://itools-ioutils.fcac-acfc.gc.ca/yft-vof/eng/invest-1-2.aspx Too many retail clients appear to be rated higher than their true knowledge of investing. In addition, Canadians have been found to overstate their investment knowledge and experience (and risk tolerance) .

6. Dealer control systems should be capable of detecting or flagging inconsistent KYC information for management attention. The system should be capable of alerting management if an advisor is using a generic KYC approach for multiple clients rather than individualized client-specific information.
7. If DSC mutual funds are sold, the advisor should be required to justify and document the decision.
8. Discount brokerages should not be allowed to sell mutual funds or any products with embedded sales commissions. Product manufacturers should not be allowed to pay off investment dealers to carry certain products.
9. Bank-owned dealers should not be permitted to ban completive products from their offerings when such products are superior in cost-performance.
10. Complaint handling regarding unsuitable investment actions should be incorporated into the proposals. It is a crucial client-dealer touch point in need of reform. Complaint responses should be fair and suitable under the circumstances.
11. Shouldn't baseline KYC data include some information on debt owing and income tax rate?
12. There should be more IIROC enforcement of mutual fund sales practice rules. Abuse of these practices skew advice integrity and lead to unsuitable recommendations.
13. It is not clear how dealers are to calculate risk capacity, a critical component of a suitability determination.
14. Are dealers required to proceed with client originated transactions if they are deemed to be unsuitable?
15. Should the title "advisor" be restricted to persons that are members of IIROC recognized professional Associations? If they are not , can they employ "professional judgement"?
16. Are advisors expected to assess suitability in the event of market or economic turbulence?
17. Unsuitable approved outside business transactions should be the responsibility of the dealer,
18. Dealers should not be permitted to divert complaints to affiliated non-independent internal ombudsman as their determinations may be unsuitable and not in the best interests of clients.
19. Should advisors be required to meet a Code of Ethics that supports suitability?
20. IIROC should prioritize investor compensation when it finds that investors have been sold unsuitable investments, leading to financial losses. Disgorgement cash should be passed on to victims of unsuitable advice.

21. The responsibility for the KYC/suitability system should rest entirely with the dealer. The dealer is responsible for advisor recruitment, compensation practices, training, supervision, compliance monitoring and internal controls. Advisors are merely representatives of the dealer.

I sincerely hope that this input leads to better investor protection rules and regulations.

Arthur Ross

REFERENCE

RETAIL FINANCIAL ADVICE: DOES ONE SIZE FIT ALL**?** : NBER
ABSTRACT: Using unique data on Canadian households, we assess the impact of financial advisors on their clients' portfolios. We find that advisors induce their clients to take more risk, thereby raising expected returns. On the other hand, we find limited evidence of customization: advisors direct clients into similar portfolios independent of their clients' risk preferences and stage in the life cycle. An advisor's own portfolio is a good predictor of the client's portfolio even after controlling for the client's characteristics. This one-size-fits-all advice does not come cheap. The average client pays more than 2.7% each year in fees and thus gives up all of the equity premium gained through increased risk-taking.
https://www.nber.org/system/files/working_papers/w20712/w20712.pdf