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Member Regulation Policy
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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. At the outset after reading your proposals I am still struggling to find definitive guidance with respect to in what situations are investment advisors specifically directed not to invest clients' monies in investments (exempt market investments will be focused on for these purposes as they are very illiquid and hence very risky) that could be unsuitable for many reasons.

What I have been able to ascertain, unless I have missed something, is that there is additional guidance steps that must be undertaken to get more information to potentially rationalize an investment, as opposed to specific direction for advisors on not allowing their clients to invest in specific investments. In addition, I see no specific guidance to deal with the issues that, almost one-quarter of individuals who identify themselves as low-risk investors own "medium- to very high-risk" products; conversely, seven in 10 self-identified high-risk investors own "low- to medium-risk" products as identified by the OSC at https://www.getsmarteraboutmoney.ca/resources/publications/research/investor-risk-behaviour-beliefs/. There is a mismatch that will be very challenging to deal with going forward.

The relationship between client risk classification and the ownership of risk investments will still, in my opinion, be very problematic going forward as I am still struggling how client/advisor risk classification will be operationalized in terms of KYC and investment suitability.

Below are some of my thoughts on your proposals that focus on relying on the professionalism of your members, databases, and technology to determine a better way to categorize risk and hopefully more suitable investments tailored to individual client KYC's:

1. At the outset, there should be a test of client's investment knowledge to allow advisors to assess whether the clients really understand risk and by extension the suitability of an investment that they are requesting or the advisor is recommending.
2. On reviewing all the information regarding KYC and suitability of investments I find nothing that mandates that if an advisor feels (subjective but it is that voice in the back of your head that is telling you this is not an appropriate investment) that the client should not be investing in a particular investment the advisor should walk away from the client. The proposal provides more guidance on how to document attempts to obtain additional information to document as to potential investment suitability.
3. IIROC, member firms, and investment advisors should implement a program to educate their clients on the critical importance of risk as part of the KYC.

4. Given the sophistication of dealer member and investor databases client suitability determinations should be made on a continual basis based on KYC criteria that should also be actively updated on an ongoing basis, not just once in a while as an afterthought or because it is required.
5. KYC information is **very critical** in the case of member firms and advisors offering investments in the exempt market space. My understanding is that many investors do not fully understand the exempt market visa vi risk assessments.
6. As part of the KYC member firms and investment advisors selling/promoting exempt market investments, MUST be required to provide a detailed explanation in easily understandable terms of the exempt market investment that they are recommending to their clients including full disclosure of:
   6.1. Any remuneration the advisor and/or the firm receives from recommending the investment, whether the remuneration is direct or indirect and also should consider if the remuneration is received by related parties to the firm or advisor.
   6.2. The projected time frames for the investment as there is in reality a limited external market for exempt market investments. The time frames should err on the side of the longest possible exit strategy, if ever.
   6.3. The exempt market exit strategies should be clearly disclosed to the clients.
   6.4. What due diligence, if any, the firm or the investment advisor did with respect to investigation of the principals behind the investments.
   6.5. All risks should be bolded upfront and in a bigger and different coloured font to direct their client's attention to the risks. All clients should be required to provide a specific sign off on all risks.
   6.6. A section recommending that their clients should consider getting a second opinion from their accountants and/or lawyers as to the suitability of the investment that should also be signed off by all the clients.

   The sign off MUST be required by all clients, even on joint accounts, that they agree to the investment suitability.
7. With respect to clients' financial assets and net worth the principal residence should be excluded from net worth as any client should never be placed in the position that they may be forced to sell their principal residence to cover an investment loss or ongoing cash requirements. With the run up of values in real estate of late this distorts the true value of client's net worth.
8. Exempt market investments should be highly correlated with the client's ages and the sector where they work. For example, private sector positions are far more risky than public sector positions which should be important factors with respect to exempt market investments that could take decades to be realized.
9. The KYC should be on an account-by-account basis and also further broken down by the type of investments that are being held in the account as part of a risk profile assessment as investments can be either very safe on one end of the spectrum to very risky on the other end of the spectrum.
10. Investment advisors acting in a professional capacity of providing financial advice as part of a firm of investment professionals, should as part of their due diligence in recommending investments for their clients be aware of the risk classification of all investments. Consequently, it would be relatively easy for member firms to require investment advisors to categorize specific investments and/or group of investments with a risk profile weighting as to the volitivity of an investment. For example, GICs have zero risk, bank and utility stocks have low risk and exempt market investments

have a high risk irrespective of what they are invested in, by the very nature of the investments. This database would allow investment advisors the ability to categorize the suitability of an investment for their clients as they would have access to all risk categorized client data.

11. At all times advisors should be able to break down their client holdings by risk profile as with the existing information it should be relatively easy to categorize investments on a risk basis. The clients should be advised of their risk financial profile on some basis so that decisions can be made to balance their risk on an ongoing basis.
12. KYC information should be accessible online to all clients on an account-by-account basis on a read only basis and where the clients do not have computer access a KYC should be provided when prepared and every time it is updated.
13. Every client statement either obtained online or mailed to the client should have a statement at the top of the document advising clients that it is important to ensure that the KYC section is updated and accurate as the KYC drives the client risk profile and suitability of an investment.
14. Every communication between an advisor and their clients should reference the fact that the clients should ensure that the KYC information is updated as that up-to-date KYC information is the only way that an advisor can protect their clients from loosing money in risky investments.
15. A lot more easily understandable information should be communicated to clients/investors in layman's terms with examples as to what "**risk**" clearly means as most clients/investors have no idea as to what "risk" truly represents in terms of investing.
16. Any/all sales commissions or any/all other remuneration received in whatever investments vehicles are presented whether deferred, ongoing or at the outset must be disclosed as part of the investment presentation to clients.
17. Clients' annual expenditure information should also be obtained under 2.03.02 as that would be considered a component of liquidity needs so that advisor can assess the investment suitability better.
18. If clients are using borrowed monies to invest advisors should obtain updates to the borrowing on an annual basis as their borrowed portfolios should also be subjected to a stress test similar to a mortgage on a house.
19. IIROC should establish specific limits on the percentage size of any client's portfolio that is allowed to be invested in exempt market securities as opposed to general risk assessment and KYC assessments.

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

Thanks for your consideration of the above points.

Rick Price