

Client Relationship Model

New Rule 3500 - Relationship disclosure

3500.1. Objective of relationship disclosure requirements

- (1) This Rule establishes the minimum industry standards for relationship disclosure to retail clients. This Rule does not apply to accounts of institutional clients.

Relationship disclosure is a written communication from the Dealer Member to the client describing:

- the products and services offered by the Dealer Member;
- the nature of the account and the manner in which the account will operate; and
- the responsibilities of the Dealer Member to the client.

Relationship disclosure must be provided to a client at time of opening an account or accounts and when there is a significant change to relationship disclosure information previously provided to a client.

References in this Rule describing the obligations of the Dealer Member in relation to services provided on advisory and managed accounts apply equally to the Approved Persons of the Dealer Member providing services on such accounts.

This Rule should be reviewed in conjunction with:

- Rules 1300.1 and 1300.2 - “Know your client”, suitability and supervision;
- Rules 1300.3 to 1300.21 - Discretionary and managed accounts;
- Rule 2500 - Minimum standards for retail account supervision; and
- Rule 3200 - Minimum requirements for Dealer Members seeking approval under Rule 1300.1(s) for suitability relief for trades not recommended by the Dealer Member.

3500.2. Definition of account relationship types

- (1) An “advisory account” is an account where the client is responsible for investment decisions but is able to rely on advice given by a registered representative. The registered representative is responsible for the advice given. In providing this advice, the registered representative must meet an appropriate standard of care, provide suitable investment recommendations and provide unbiased investment advice.
- (2) An “order-execution service account” is an account opened in accordance with “order-execution service” requirements set out in Rule 3200.
- (3) A “managed account” is an account as defined in Rule 1300.3.

3500.3. Form of relationship disclosure

- (1) Dealer Members have the choice of providing customized relationship disclosure to each client, or appropriate standardized relationship disclosure to separate classes of clients.
- (2) Where standardized relationship disclosure is provided to the client the Dealer Member must determine that the disclosure is appropriate for the client. Specifically, the disclosure must accurately describe:
 - (a) the account relationship the client has entered into with the Dealer Member; and
 - (b) the advisory, suitability and performance reporting service levels the client will receive from with the Dealer Member.
- (3) Where a client has more than one account, combined relationship disclosure information may be provided as long as the Dealer Member determines that the combined disclosure is appropriate for the client in light of the relevant circumstances, including the nature of the various accounts.

3500.4. Format of relationship disclosure

- (1) The format of the relationship disclosure is not prescribed but:
 - (a) The relationship disclosure must be provided to the client in writing;
 - (b) The relationship disclosure must be written in plain language that communicates the information to the client in a meaningful way; and
 - (c) The relationship disclosure must include all the required content set out in Section 3500.5, or, where specific information has otherwise been provided to the client by the Dealer Member, a general description and a reference to the other disclosure materials containing the required information.
- (2) Dealer Members may choose to provide the relationship disclosure as a separate document or to integrate it with other account opening materials.

3500.5. Content of relationship disclosure

- (1) The relationship disclosure information must be entitled "Relationship Disclosure".
- (2) Subject to subparagraphs (3) and (4), the relationship disclosure must contain the following information:
 - (a) A description of the types of products and services offered by the Dealer Member;
 - (b) A description of the account relationship;
 - (c) A description of the process used by the Dealer Member to assess investment suitability, including:
 - (i) a description of the approach used by the Dealer Member to assess the client's financial situation, investment objectives and time horizon, risk tolerance and investment knowledge and a statement that the client

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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;

- (ii) a statement indicating that the Dealer Member will assess the suitability of investments in the client’s account whenever:
 - (A) a trade is accepted,
 - (B) a recommendation is made,
 - (C) securities are transferred or deposited into the account,
 - (D) there is a change in the registered representative or portfolio manager responsible for the account, or
 - (E) there is a material change to the client’s “know your client” information; and
 - (iii) a statement indicating whether or not the suitability of the investments held in the account will be reviewed in the case of other triggering events not described in Rule 1300.1(r) and, in particular, in the event of significant market fluctuations;
- (d) A description of the client account reporting that the Dealer Member will provide, including:
- (i) a statement indicating when trade confirmations and account statements will be sent to the client;
 - (ii) a description of the Dealer Member’s minimum obligations to provide performance information to the client and a statement indicating when account position cost and account activity information will be provided to the client; and
 - (iii) 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;
- (e) A statement indicating Dealer Member and Approved Person conflicts of interest and stating that existing and potential material conflict of interest situations, where not avoided, will be disclosed to the client as they arise;
- (f) A description of all account service fees and charges the client will or may incur relating to the general operation of the account;
- (g) A description of all charges the client will or may incur in making, disposing and holding investments by type of investment product;
- (h) A listing of the account documents required to be provided to the client with respect to the account; and
- (i) A description of the Dealer Member’s complaint handling procedures and a statement that the client will be provided with a copy of an IIROC approved complaint handling process brochure at time of account opening.

Attachment A

- (3) For order-execution service accounts, the Dealer Member does not have to provide the relationship disclosure information required under subparagraph 2(c), provided that disclosure is made in compliance with the requirements in Rule 3200.
- (4) For managed accounts, the required disclosure referred to in subparagraph 2(c)(iii) does not apply and the relationship disclosure provided by the Dealer Member must include a statement that ongoing suitability is provided as part of the managed account services.

3500.6. Review of relationship disclosure materials

- (1) Pursuant to Rule 1300.2, the relationship disclosure provided to the client must be approved by a partner, director, officer or designated supervisor. This approval must occur regardless of the form the relationship disclosure takes. If the document is a standardized document, the supervisor who approves new accounts must ensure that the correct document is used in each client circumstance. If the relationship disclosure is a customized document for each client, the designated supervisor must approve each document.

3500.7. Audit trail and client acknowledgement requirements

- (1) The Dealer Member must maintain an audit trail to evidence that account related documents required by IIROC Rules have been provided to the client.
- (2) Dealer Members must obtain their clients' acknowledgement of receipt of the "know your client" information. A client signature acknowledging receipt is preferred, but not required. If the client's signature is not obtained, another acceptable method of documenting the client's acknowledgement of receipt of this information must be used.