IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

March 26, 2012

Re: IIROC response to comments on Client Relationship Model Rules and amendments to IIROC Dealer Member Rules 200 and 1300

We are publishing this letter in response to the comment letters received on the proposed Client Relationship Model (CRM) rules and amendments, which include proposed amendments to IIROC Dealer Member Rules 200 and 1300, the CRM guidance note ("Guidance Note") and the Know Your Client and Suitability guidance note ("Know your client and Suitability Guidance Note").

We received 13 comment submissions in response to the request for comments. We thank all of the commenters for their helpful submissions.

The comments have been summarized and grouped according to the issues raised. The response by IIROC staff follows each particular issue.

General

Consistency between IIROC and other proposals

1. We received 5 comments regarding the need for consistency between the IIROC proposals and those of the CSA and MFDA.

> ***IIROC staff response***
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> IIROC staff consulted extensively with representatives of the CSA and the MFDA throughout the development of the proposed rules and has made several changes to its proposals to enhance consistency in the approaches, where applicable. Where there continues to be inconsistencies in the approaches taken, these are generally required to accommodate for the differences in the business models / account types typically offered by registrants under each registration category.

Cost versus benefits of proposed amendments

2. We received 5 comments which relate to potential costs versus benefits of the proposed amendments.

> ***IIROC staff response***
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> Although it is difficult to quantify with any degree of precision, comments received from investors indicate that a significant benefit of these proposals will be to enhance investor protection through greater disclosure of account relationship, firm/advisor conflict of interest and account performance information and through more frequent assessment of

the suitability of the account assets. IIROC staff have received considerable input on cost issues throughout the rule-making process. We believe that we understand and have fully considered the cost issues noted in the comments. Wherever possible, IIROC has developed its proposals to achieve the investor protection goals of the CRM project while minimizing the potential implementation costs and ongoing costs of compliance.

Need for further consultation

3. Three comments suggested that further consultation be conducted with respect to the challenges that would have to be addressed in complying with the proposed requirements.

IIROC staff response

IIROC staff has fully considered the challenges facing Dealer Members. Extensive consultations have been conducted with Dealer Members, Approved Persons and other industry participants throughout the development of the proposed rules. Further, industry representatives were directly involved in the drafting of the CSA-approved direction documents that set out the basis for the proposed changes. Joint SRO/industry committees were also consulted in the drafting of the proposed rule amendments. Finally, the proposed amendments have been published for public comment on three occasions.

Transition periods

4. We received the following comments regarding the transition periods:

   - A minimum of 12 to 18 months should be provided for delivery of the relationship disclosure information to new clients.
   - The time frame for performance reporting should be extended to a minimum of 3 years for all account performance reporting requirements from the date of implementation, or in the alternative, consider the use of a "phased in" approach for the performance reporting requirements.

IIROC staff response

IIROC staff has revised the transition periods to reflect the removal of the requirement for clients to acknowledge receipt of relationship disclosure information.

Also, as IIROC has been requested by the CSA to suspend the implementation of the performance reporting elements of its CRM proposals until the end of 2012, and has agreed to do so in order that the CSA performance reporting proposals can be finalized, the commencement of the implementation of the performance reporting elements has been deferred.

The following is a summary of the revised transition periods:

Relationship disclosure requirements	
New clients	1 year

Existing clients	2 years
Conflicts of interest management / disclosure requirements	
Provisions relating to conflict identification and avoiding and addressing conflicts	Immediate
Provisions relating to conflict disclosure: (i) prior to opening an account (ii) inclusion of conflicts disclosure in relationship disclosure information provided to new clients (iii) inclusion of conflicts disclosure in relationship disclosure information provided to existing clients (iv) prior to entering into a transaction	 Immediate 1 year 2 years Immediate
Account suitability requirements	
Trigger event suitability assessment requirements	6 months
Account performance reporting requirements	
Security position cost disclosure	Implementation deferred
Account activity disclosure	Implementation deferred
Account percentage return disclosure (i) Where percentage return information is currently, provided, an IIROC approved calculation method must be used or the information may not be provided to any client (ii) Mandatory percentage return reporting for all retail clients	 Implementation deferred Implementation deferred

RELATIONSHIP DISCLOSURE

Prescriptive nature of disclosure requirements

5. We received 4 comments suggesting that the proposed rules take a less prescriptive approach to the disclosure requirements in order to allow Dealer Members more flexibility in determining the material information to be provided to clients.

IIROC staff response

The relationship disclosure requirements are designed to address a fundamental objective of the Client Relationship Model project – to provide clients with a better understanding of what to expect from their Dealer Member and advisor when they open an investment account. However, balanced against the desire to state this objective in broad principles-based language is also the need to set clear, minimum standards regarding the nature and

quality of such disclosure.

It is IIROC's view that the proposed requirements strike an appropriate balance, setting out clear minimum standards, while still allowing a sufficient degree of flexibility to accommodate differences in Dealer Members' business models.

Content requirements

We received the following comments relating to the required content for the proposed relationship disclosure information:

6. To ensure consistency, remove the word "form" from the term "KYC information form" and remove the words "collection form" from the term "know your client information collection form".

IIROC staff response

The proposed rules and Guidance Note have been revised to remove the word "form" from the term "KYC information form" and remove the words "collection form" from the term "know your client information collection form".

7. The Guidance Note should clearly provide that the obligation to provide the relationship disclosure document resides solely with the introducing broker.

IIROC staff response

The Guidance Note clearly states that the introducing broker is responsible for providing the relationship disclosure information to clients, as well as for supervising the suitability of all trading activity.

8. Relationship disclosure for retail accounts should provide more context about the advisor-client relationship and should be made on a consistent "rolling" basis.

IIROC staff response

We understand this to mean that the commenter believes that relationship disclosure should be provided on a consistent basis as opposed to only when there are changes. The proposed rules require that Dealer Members accurately describe the account relationship the client has entered into with the Dealer Member, as well as the advisory, suitability and performance reporting service levels the client will receive from the Dealer Member. Although there is a requirement to provide clients with updated relationship disclosure when significant changes to the account relationship have occurred, Dealer Members may choose to provide ongoing periodic relationship disclosure regardless of whether or not material changes have occurred.

9. Section XX05(2)(c)(i) has not been updated to reflect that firms are now required to consider a client's time horizon when providing a client with a description of how investment suitability is assessed.

IIROC staff response

We agree that "time horizon" should be disclosed to the client as an important suitability consideration and have added it to proposed Rule XX05(2)(c)(i).

10. The current wording of Rule XX05(2)(d)(iii) refers to the relationship disclosure document containing "a statement indicating whether or not the provision of account percentage return information will be an option available to the client" does not appear to be reflective of the new requirement to provide percentage return information.

IIROC staff response

Proposed rule XX05(2)(d)(iii) has been drafted to take into account both Dealer Members who currently provide account performance reporting information and Dealer Members who do not currently do so. In order to avoid having to regularly update the client relationship disclosure documents, it may be more efficient for Dealer Members who do not currently provide account performance reporting information to expressly state the performance reporting information that they plan to provide to clients over the implementation period of the IIROC requirements to provide clients with performance information.

11. There should be a mandatory, standardized suitability approach for accounts other than for "order-execution only" accounts.

IIROC staff response

IIROC staff believes that a Dealer Member's approach to assessing a client's financial situation, investment objectives and time horizon, risk tolerance and investment knowledge may vary from client to client and the Dealer Member should, therefore, be given the flexibility to select the process that best achieves the objective of the rule.

12. The utility of the requirement to describe the approach used by the Dealer Member to assess investment suitability, including a description of the process used to assess the client's 'know-your-client' information, given that advisors use different approaches, is questionable. Further discussion in the proposed CRM Guidance Note is required.

IIROC staff response

The intention of the proposed disclosure requirement is that the Dealer Member should not only tell the client that they are performing suitability assessments but also explain to the client, in general terms, how and when suitability assessments will be performed and what factors will be considered in making those assessments. Many clients may be unaware of this current obligation and the factors that are considered by Dealer Members in meeting this obligation. IIROC staff have reviewed draft guidance note and are satisfied that the need to provide this information to clients and the information that must be provided is adequately explained.

13. Dealer Members should be required to disclose charges in advance of the purchase or sale of a security.

> ***IIROC staff response***
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> The Guidance Note has been revised to encourage Dealer Members to adopt best practices, including the disclosure of charges specific to a transaction, prior to the acceptance of a client's order.

Delivery and client acknowledgment of documentation

We received the following comments regarding issues with the delivery requirements and client acknowledgment:

14. Proposed Rule XX07 relating to relationship disclosure information should be amended to remove the requirement to obtain client acknowledgment. In the alternative, a 'notice and access approach' should be taken to the delivery of the relationship disclosure information to existing clients.

> ***IIROC staff response***
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> The Proposed Rule XX07 and Guidance Note have been revised to remove the requirement to obtain client acknowledgment of the relationship disclosure information. As a result of these revisions, Dealer Members will only be required to obtain client acknowledgment of the "know your client" information that is collected from the client at the time of account opening.

15. Provide additional examples of acceptable methods of acknowledgment and, in particular, guidance on whether negative confirmation is an acceptable method of documenting the client's acknowledgment.

> ***IIROC staff response***
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> Dealer Members are required to obtain their client's positive acknowledgement of the "know your client" information at the time of account opening. To meet this obligation, Dealer Members may use whatever method best suits their business model, provided that compliance with the basic acknowledgement requirement can be demonstrated by the Dealer Member. Acceptable methods include, but are not limited to:
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> - a signature,
> - a documented phone conversation during which the client acknowledges receipt of the information, and/or
> - an email or letter from the client acknowledging receipt of the information.

16. Further guidance is required in the event Dealer Members fail to obtain client acknowledgement.

IIROC staff response

If a Dealer Member is unable to obtain positive acknowledgment at the time of account opening, the request to open the account must be declined. Use of a negative confirmation approach will not satisfy the account opening requirement to obtain client acknowledgement of the "know your client" information. Further, Dealer Members that intend to use an electronic acknowledgement approach would be expected to satisfy the requirements noted in IDA Member Regulation Notice MR-008.

Subsequent material changes to "know your client" information may be evidenced by either positive or negative confirmation. As a result, a Dealer Member may obtain a client signature, or alternatively, maintain notes in the client file detailing the client's instructions to change the information. Dealer Members are required to verify the client's instructions by providing written confirmation to the client with details of the instructions and providing an opportunity for the client to make corrections to any changes that have been made.

In situations where "know your client" information is missing entirely, or specific fields such as the client's current financial situation, investment knowledge, investment objectives and time horizon, and risk tolerance are missing, Dealer Members must restrict the client from entering into any further account transactions other than liquidating transactions until the missing information is received.

This further guidance has been added to the draft Guidance Note.

17. Clarify that a signature is indeed a "best practice"; however, firms can use whatever method suits their business model.

IIROC staff response

The draft Guidance Note states that acknowledgement of know your client information must be positively acknowledged and that, while obtaining a client signature is the preferred form of positive acknowledgement, other forms of positive acknowledgement such as a documented phone conversation or an e-mail are acceptable.

18. Further information is required on the interpretation of "in writing", "plain language" and "meaningful way".

IIROC staff response

The words "in writing", "plain language" and "meaningful way", are plain language terms and refer to the written communication of information that is most appropriate to your audience (i.e. it is easy to read, understand and use).

Requests for clarification of rule

We received the following comments requesting clarification of certain aspects of the proposed relationship disclosure requirements:

19. Provide further clarification of the level of disclosure of fees/charges to clients.

IIROC staff response

As discussed in the proposed Guidance Note and consistent with National Instrument 31-103 ("NI 31-103"), the discussion of account operation and transaction fees/charges will include all charges a client may incur during the course of acquiring, selling or holding an investment product, including amounts to be paid indirectly to the Dealer Member by the client. For example, mutual fund fees/charges disclosure should include a discussion of the management expenses that are deducted from fund performance by the mutual fund manager as well as the types of fees/charges that may be paid to the Dealer Member by the mutual fund manager from these collected management expenses. This may be done through a fee schedule which lists all the fees/charges that may be borne by the client. A detailed description of the specific products and services provided and the processes Dealer Members put in place to deliver those products and services is also required. A customized relationship disclosure document must be provided according to account service offering.

20. Relationship disclosure information should be delivered to clients of order-execution service accounts after the new account is approved and trades are executed.

IIROC staff response

IIROC staff does not believe there is a good rationale for adopting this suggestion. Specifically, while there is no suitability obligation as part of the order-execution only account service offering, there is an obligation to ensure that the order-execution only service clients are aware of the services they are receiving, the charges they may incur and the reporting they will receive at the time they open their account; the same obligation as with any other account type. As a result, we continue to believe that relationship disclosure information should be provided to all retail clients at the time they open their account, regardless of the account type. The rules do recognize however, that obligations of Dealer Members to provide specific disclosures will differ, as there is no suitability obligation regarding order-execution service accounts.

21. Where some advisors only offer fee-based products and not commission-based products, would the Dealer Member be required to develop different relationship disclosure documents for these advisors?

IIROC staff response

The proposals mandate the information to be disclosed and set out general principles-based requirements to be complied with, relating to the form and format of the disclosure. These general principles-based requirements require that the disclosure, among other things, "be written in plain language that communicates the information to the client in a meaningful way". If a Dealer Member provides the same disclosure information to their clients with fee-based accounts as well as to their clients with commission-based accounts, we don't believe that this principles-based standard would be met, as the client would not be informed as to whether the account they opened was fee-based or commission-based and what the

material differences would be relating to, for instance, services provided and fees charged.

22. Provide clarification on whether Investment Counselors will be responsible for providing their clients with relationship disclosure documents.

IIROC staff response

Investment Counselors will be responsible for providing clients with relationship disclosure information. Where a firm is registered solely as a Portfolio Manager, the relationship disclosure requirements set out in NI 31-103 will apply. Where a firm is registered as both Portfolio Manager and an Investment Dealer, the IIROC relationship disclosure requirements will apply.

CONFLICTS RESOLUTION AND DISCLOSURE

Clarification of disclosure requirements

We received the following comments requesting clarification of the requirements relating to conflict disclosure:

23. The "best interests of the client" may be misinterpreted as creating a fiduciary duty in Canada, and there is no reason why IIROC should adopt a higher standard regarding conflicts of interest management / disclosure than that set out in NI 31-103. This "best interests of the client" language should be removed.

IIROC staff response

IIROC does not believe that the phrase "best interests of the client" on its own creates a fiduciary duty relating to existing or potential material conflicts of interest, and it is not IIROC's intention to do so. Whether or not a fiduciary duty exists in an account relationship depends on the facts of each case, including, among other things, the services being provided to the client and the degree to which the client relies on the firm/adviser in making investment decisions. While the standard of conduct established by the proposal is not as high as the fiduciary standard, it is intended to strengthen investor protection by clarifying IIROC's expectations on how existing or potential material conflicts of interest are to be addressed as between the Approved Person and the client, as well as between the Dealer Member and clients generally.

24. Further guidance is needed on whether only material conflicts need to be identified and disclosed or if all conflicts must be disclosed.

IIROC staff response

We have revised the language in proposed Rule XX04 to now clearly indicate that only material existing or potential conflicts of interest, unless avoided, need to be disclosed.

25. A strong emphasis should be placed on the immediate disclosure of all material conflicts.

IIROC staff response

Proposed Rule XX04 sets out when conflicts must be disclosed to both new and existing clients. For new clients, the proposed rule requires that conflicts of interest be disclosed prior to the opening of the account, which is effectively the same as immediate disclosure. For existing clients, the proposed rule requires that conflicts must be disclosed either when the conflict of interest occurs or, in the case of a proposed transaction, prior to entering into the transaction. Again, these requirements effectively mandate the immediate disclosure of conflicts of interest that are relevant to the client.

26. Provide additional guidance in understanding the meaning of materiality in the context of conflicts in the brokerage business.

IIROC staff response

Determining whether a conflict is material depends on the facts of each case. However, where the conflict is so significant that there is a reasonable likelihood that a client would want to know about it, this would be considered a material conflict of interest that must be addressed and disclosed. This is consistent with the approach adopted under proposed NI 31-103.

27. Guidance is required on what will be considered "reasonable steps".

IIROC staff response

This requirement was deliberately drafted to enable Dealer Members to determine the approaches that are most efficient for them in identifying material conflict of interest situations. Therefore, "reasonable steps" will depend on the specific facts and surrounding circumstances of each case.

28. To ensure consistency, the proposed relationship disclosure rule should be revised to require disclosure of "material" conflicts of interest situations.

IIROC staff response

The proposed relationship disclosure rule has been revised to require disclosure of "material" conflicts of interest situations.

29. A best practice guide for the industry on conflicts of interest which would outline various scenarios that dealers and advisors should be aware of is recommended.

IIROC staff response

IIROC staff will review the existing draft Guidance Note as an interim step to determine if dealers and advisors should be made aware of additional conflicts of interest scenarios. IIROC is also willing to work with the industry to develop a best practice guide as a longer term initiative, to be updated periodically as new conflict of interest situations common to the industry are identified. However, it is not felt to be practical to commit to providing guidance (either through the issuance of a guidance note or through the development of a

best practice guide) on every possible conflict of interest situation, given that each situation will have a different set of facts. Furthermore, a "best practice" guide may also be misleading and may be interpreted as providing an exhaustive list of conflicts of interest situations that need to be addressed.

RETAIL CLIENT SUITABILITY

Request for clarification

We received the following comments regarding certain aspects of the proposed suitability assessment requirements:

30. Dealer Members should be allowed to implement "know your client" and suitability assessment processes using a risk-based approach approved by management.

IIROC staff response

IIROC staff encourages Dealer Members to use a risk based approach in determining which best practices should be incorporated into their "know your client" policies and procedures. This has been addressed in the Know Your Client and Suitability Guidance Note.

31. There is a typo in 1300.1(p) as reference to "1300.1(s)" should read "1300.1(u)".

IIROC staff response

The proposed rule has been revised accordingly.

32. Subsection 1300.1(t) should reference new suitability requirements 1300.1(r) and (s).

IIROC staff response

The proposed rule has been revised accordingly.

33. Clarification is required on whether suitability assessments should be conducted on an account level and as a best practice that suitability be assessed on a portfolio level.

IIROC staff response

The Know your client and Suitability Guidance Note addresses this point and specifies the conditions under which a suitability assessment may be performed on a multiple account or portfolio basis. Where these conditions are not met, a suitability assessment must be performed on an account basis.

34. Further guidance is required as to what type of process should be used and what outcome should be expected following one of the trigger events, as well as the responsibilities of each party involved in these "post trigger" reviews.

IIROC staff response

When a trigger event occurs, a suitability review must be conducted for all positions held in a client's account or, where the necessary conditions are met, a client's accounts. The

account positions must be suitable for such client based on the client's:

- current financial situation,
- investment knowledge,
- investment objectives and time horizon**,**
- risk tolerance

as well as the account's current investment portfolio composition and risk level. Dealer Members are encouraged to adopt best practices, as outlined in the Know your client and Suitability Guidance Note. Doing so, would assist Dealer Members ensure the ongoing maintenance of a suitable client portfolio and would prompt Dealer Members to remind their clients to update previously collected information, if there is a material change in the client's circumstances.

35. Environmental, social and governance considerations should be included in the determination of investment objectives.

IIROC staff response

The factors set out in subsections 1300.1(p) and (q) are not exhaustive. Registered Representatives are required to conduct a suitability assessment based on the client's particular circumstances. This may include environmental, governance and social considerations.

36. Additional guidance is requested on how a Dealer Member is expected to set up a compliance structure to effectively supervise whether or not a suitability review of all positions in the client's account has occurred and the client has received appropriate advice.

IIROC staff response

It is not IIROC's intention to require a supervisory review of every suitability assessment that has been performed within the firm. The language in subsection 1300.1(s) has been amended to make it clear that the requirements apply to the performance of the suitability assessment and not to the supervision of the suitability assessment itself.

Limitations on suitability obligations

We received comments with respect to the requirement to perform a suitability assessment:

37. The proposed Rules 1300.1(p) and (r) continue to require that Dealer Members "ensure" that positions transferred are suitable. The words "to ensure" should be replaced with the words "in considering".

IIROC staff response

Replacing the words "to ensure" in the phrase "shall use due diligence to ensure" with the words "in considering" would effectively lessen the current and proposed suitability assessment obligations. As suitability assessment is a fundamental obligation in an advisory account, staff believes this change would inappropriately lessen this standard. Furthermore,

there is no evidence to suggest that Dealer Members are unable to comply with the current suitability assessment requirements.

38. Individual advisors are not automatically notified of transfers or deposits and are only made aware of the deposit or transfer after it takes place. Suggested amendments to address this concern include (a) limiting the suitability assessment requirement to "material" deposited/transferred in positions, and/or (b) allow the suitability assessment of the deposited/transferred in positions to be performed at the time of the next trade recommendation or order acceptance.

IIROC staff response

IIROC staff believes that the proposed security deposit/transfer suitability requirement provides significant benefits to the client. Adding a process requiring that all security transfers/deposits be approved by the advisor before proceeding would ensure that the advisor is informed in advance and is able to assess whether any security position being transferred in or deposited is suitable for the client, prior to the transfer/deposit taking place.

IIROC staff believes that the issue of materiality is already adequately addressed by moving to a portfolio approach for suitability assessment. For example, if $1,000 worth of high risk securities is transferred into an account with a $1 million in account assets, it's unlikely that the position would be determined to be unsuitable as part of the overall account. The same could not be said for $100,000 worth of high risk securities. Further, to allow the suitability assessment of the deposited/transferred in positions to be performed at the time of the next trade recommendation or order acceptance would, in effect, eliminate the deposit/transfer triggered suitability assessment requirement. IIROC staff is of the view that suitability assessments should be performed whenever a security position is added to the client's account portfolio.

Timing of reviews

We received three comments requesting clarification of IIROC's expectations regarding timelines for completion of suitability assessments:

39. Further guidance is required in determining what constitutes a reasonable amount of time to conduct reviews where there has been a transfer in of a block of accounts to a new advisor. The date of transfer should be viewed as the starting point when determining whether or not the triggered suitability review was performed within a reasonable time.

IIROC staff response

A reasonable time standard is an amount of time which is necessary, given the circumstances, to conduct a suitability review, while ensuring that the obligation to expediently service clients is met. Whether the amount of time taken to conduct a suitability review is unreasonable will depend on the nature, purpose and circumstances of each case. Although it would be optimal for the advisor to be informed of a pending transfer before it takes place, IIROC staff agrees that the date of transfer should be viewed as a reasonable starting point when determining whether or not the triggered suitability review was performed within a reasonable time.

Account Performance Reporting

General issues regarding performance reporting

We received the following comments regarding the proposed requirement to provide performance reporting:

40. IIROC's performance reporting rules are still subject to approval or disapproval by the CSA. How can a Dealer Member inform clients of their performance reporting plans if the rules are not immediately confirmed?

IIROC staff response

We understand this concern but believe that it can be addressed by disclosing the following as part of the relationship disclosure information: (a) how the dealer plans to adopt the IIROC and CSA performance reporting requirements once implemented, and (b) that the dealer will provide regular updates as part of its client newsletter (or by other means) on the performance information that will be provided to clients.

The Guidance Note has been amended to provide further guidance as to how to initially inform clients about the account performance information they will be receiving.

41. The reporting requirements could result in attribution of multiple point-in-time market values to respective incoming batches of that same security. Would subsequent performance reporting isolate and reflect distinct point-in-time market values for each batch of the transferred-in position or would the reporting display a single weighted cost value for the entire holding?

IIROC staff response

The amount disclosed would be a single weighted average cost value for the entire holding.

42. Do the proposed rules only apply to Canadian based clients or do they extend to international clients as well?

IIROC staff response

The proposed performance reporting requirements apply to all clients, other than

Institutional Customers, regardless of geographical location.

43. The use of an arbitrary market value will, by definition, provide the client with inaccurate information which may lead the client to make an incorrect assessment of their security's performance.

IIROC staff response

Market value is only to be used for positions held as at implementation date when original cost information is unavailable. The implementation date market value will allow the client to determine how the value of the position has changed over time, from the value reported as at the date of implementation.

44. In determining the market value of a security should the bid, ask or close price be used?

IIROC staff response

The approach used to determine market value should be the same as the approach used to determine market value for the purposes of client statement reporting. Specific to the comment about valuing illiquid securities, the current approach used for client statement reporting is that if a particular position is determined to be "not readily marketable, no market value shall be assigned" to the position. It is also proposed that this approach should also be used to determine the market value of illiquid securities for the purposes of performance reporting.

45. How do we price an illiquid security where a market value is unavailable?

IIROC staff response

The current approach used to price an illiquid security where a market value is unavailable for client statement reporting is that if a particular position is determined to be "not readily marketable, no market value shall be assigned" to the position. It is also proposed that this approach should also be used to determine the market value of illiquid securities for the purposes of performance reporting.

46. The proposed requirement under Rule 200.1(f) is difficult to reconcile with Bulletin MR-087 which effectively prohibits Dealer Members from combining securities held in a client name with those held in firm name on a regular monthly statement. As a result, an additional "consolidated" statement would have to be generated for every client that held such securities in client name, adding to the cost and complexity of this requirement. Where investors hold mutual funds in client name they would already be receiving performance reporting directly from the fund company, so this requirement appears to be somewhat superfluous.

IIROC staff response

The scope of client assets that a Dealer Member must report performance on and the scope of client assets that a Dealer Member must report as "client holdings held in custody under

Dealer Member control" are two distinct issues. Specifically, the guidance set out in IDA Member Regulation Notice MR-087 is not relevant to determining the scope of client assets to report performance on. That guidance applies to positions to be reported in a client account statement.

Carve-out from the performance reporting requirements

We received the following comments regarding the proposed requirement to provide performance reporting:

47. If performance reporting is made mandatory for all accounts, fewer individuals may continue to have access to a full-service advisor.

IIROC staff response

The proposals would apply to all account types – not just discretionary accounts (most of whom already get some form of performance reporting) and advisory accounts but also order-execution only accounts. It is our understanding that the additional costs of enhanced performance reporting will equally apply to both advisory account and order-execution only account service offerings.

48. There should be a carve-out from the application of performance reporting requirements for accounts valued under $100,000. These should be valued annually and reporting should be provided in the following calendar year.

IIROC staff response

Providing a blanket carve-out for accounts under a certain size means that the affected clients won't be given a choice as to whether or not they want to receive (and possibly pay for) account performance information.

Security position cost disclosure

49. We received 6 comments requesting that Dealer Members be allowed to decide which security cost information they disclose to clients or, failing that, that tax cost be disclosed.

IIROC staff response

IIROC staff believes that a security's original cost is the most accurate cost base to use when assessing individual account position performance. However, because the CSA is also developing its own proposals with respect to position cost disclosure, IIROC will harmonize its requirements with those of the CSA if it decides to adopt a different basis for cost reporting.

Issues relating to percentage return reporting

We received the following comments regarding the provision of percentage return performance reporting:

50. Calculating and reporting client portfolio returns should be provided more frequently, and the inclusion of returns and relevant benchmarks should be mandated.

> ***IIROC staff response***
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> Although there is a requirement to calculate and report client portfolio returns at least annually, Dealer Members may choose to provide more frequent reporting. We have not mandated that benchmark return information be provided, given that in many cases relevant benchmark return information is unavailable and/or the benchmark information that is available would be misleading. For example, the use of a benchmark may provide no meaningful information or may provide misleading information for complex portfolios, where no relevant reference benchmarks are available, or for simple portfolios containing relatively few securities.

51. Clarification is required that the 1, 3, 5 and 10 year reporting requirements are only mandated on a prospective basis, as the information becomes available.

> ***IIROC staff response***
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> As discussed in the Guidance Note, percentage return information must be provided to all retail clients by the end of the rule implementation transition period, as set out in proposed rule 200.1(f). The percentage return information must be provided on a 1, 3, 5 and 10 year and "since inception" basis, determined prospectively as information becomes available and must be calculated in accordance with a method acceptable to IIROC.

52. We request that an exemption from the account percentage return disclosure requirements be available for order execution service accounts.

> ***IIROC staff response***
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> IIROC's position is that all clients should receive position cost and account activity information to enable them to determine whether they have gained or lost money on the investments in their account(s) and to receive percentage return information to enable them to determine the reasonableness of any gain or loss earned/incurred.

Suggested enhancements to the CRM proposal

53. We received the following comments suggesting enhancements to the CRM proposal:

- It should be mandatory that a Point of Engagement Registrant Disclosure be provided to the client prior to the NAAF being signed.
- IIROC should adopt a principled Client First Model in place of the Client Relationship Model.

> ***IIROC staff response***
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> The Client Relationship Model rules and amendments illustrate IIROC's commitment to protect investors and set high quality regulatory and investment industry standards. IIROC

staff will consider these suggestions for future rulemaking projects as we proceed with the enhancements we've developed to date.