

Proposals to implement the core principles of the Client Relationship Model

Proposed Amendments—New Rule ~~XX01~~3500 - Relationship disclosure

~~XX01~~3500.1. Objective of relationship disclosure requirements

- (1) This Rule establishes the minimum industry standards for relationship disclosure to retail clients ~~at the time of opening an account or accounts~~. 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.

~~XX02~~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.

~~XX03~~.[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.

~~XX04~~.[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 ~~XX05~~.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.

~~XX05~~.[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

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- tolerance and investment knowledge and a statement that the client 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, investment~~ 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 ~~future~~[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

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- (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.
- (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.

~~XX06.~~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.

~~XX07.~~Client3500.7. **Audit trail and client acknowledgement of receipt of account-related documents 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. ~~In addition,~~
- (2) Dealer Members must obtain their clients' acknowledgement of receipt of the "know your client" information ~~form and account relationship disclosure materials~~. A client signature acknowledging receipt is preferred, but not required. If the client's signature is not obtained, ~~some other~~ another acceptable method of documenting the client's acknowledgement of receipt of this information must be used.

Proposals to implement the core principles of the Client Relationship Model

Proposed Amendments—New Rule ~~XX00~~42 - Conflicts of interest

~~XX01~~.42.1. Responsibility to identify conflicts of interest

- (1) Each Dealer Member and, where applicable, Approved Person shall take reasonable steps to identify existing and potential material conflicts of interest between the interests of the Dealer Member or Approved Person and the interests of the client.
- (2) Where an Approved Person becomes aware of an existing or potential material conflict of interest, the existing or potential conflict shall be reported immediately to the Dealer Member.

~~XX02~~.42.2. Approved Person responsibility to address conflicts of interest

- (1) The Approved Person must consider the implications of any existing or potential material conflicts of interest between the Approved Person and the client.
- (2) The Approved Person must address all existing or potential material conflicts of interest between the Approved Person and the client in a fair, equitable and transparent manner, and consistent with the best interests of the client or clients.
- (3) Any existing or potential material conflict of interest between the Approved Person and the client that cannot be addressed in a fair, equitable and transparent manner, and consistent with the best interests of the client or clients, must be avoided.

~~XX03~~.42.3. Dealer Member responsibility to address conflicts of interest

- (1) The Dealer Member must consider the implications of any existing or potential material conflicts of interest between the Dealer Member and the client.
- (2) The Dealer Member must address the existing or potential material conflict of interest in a fair, equitable and transparent manner, and considering the best interests of the client or clients.
- (3) Any existing or potential material conflict of interest between the Dealer Member and the client that cannot be addressed in a fair, equitable and transparent manner, and considering the best interests of the client or clients, must be avoided.
- (4) The Dealer Member must adequately supervise how existing or potential material conflicts of interest between the Approved Person and the client are addressed by its Approved Persons pursuant to section ~~XX02~~.42.2.

~~XX04~~.42.4. Responsibility to disclose conflicts of interest

- (1) Unless ~~a material conflict of interest has been~~ avoided, the an existing or potential material conflict of interest must be disclosed to the client in all cases where a reasonable client would expect to be informed:

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- (a) for new clients, prior to opening an account for the client; and
- (b) for existing clients, either as the conflict [of interest](#) occurs or, in the case of a transaction related conflict of interest, prior to entering into the transaction with the client.

~~XX05-42.5.~~ 42.5. Conflicts of interest policies and procedures

- (1) Each Dealer Member shall develop and maintain written policies and procedures to be followed in identifying, avoiding, disclosing and addressing material conflict of interest situations.

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Proposed Amendments – Amended to Rule 1300 - Supervision of accounts

1. Rule 1300 subsections 1300.1(p) through (v) are repealed and replaced as follows:

“Suitability determination required when accepting order

- (p) Subject to Rules 1300.1(t) and 1300.1(~~su~~), each Dealer Member shall use due diligence to ensure that the acceptance of any order from a client is suitable for such client based on factors including the client’s current financial situation, investment knowledge, investment objectives and time horizon, risk tolerance and the account or accounts’s current investment portfolio composition and risk level. If the order received from a client is not suitable, the client must, at a minimum, be advised against proceeding with the order.

Suitability determination required when recommendation provided

- (q) Each Dealer Member, when recommending to a client the purchase, sale, exchange or holding of any security, shall use due diligence to ensure that the recommendation is suitable for such client based on factors including the client’s current financial situation, investment knowledge, investment objectives and time horizon, risk tolerance and the account or accounts’s current investment portfolio composition and risk level.

Suitability determination required for account positions held when certain events occur

- (r) Each Dealer Member shall, subject to Rules 1300.1(t) and 1300.1(u), use due diligence to ensure that the positions held in a client’s account or accounts are suitable for such client based on factors including the client’s current financial situation, investment knowledge, investment objectives and time horizon, risk tolerance and the account ~~s~~ or account(s)’ current investment portfolio composition and risk level whenever one or more of the following trigger events occurs:
- (i) Securities are received into the client’s account by way of deposit or transfer; or
 - (ii) There is a change in the registered ~~representative, investment~~ representative or portfolio manager responsible for the account; or
 - (iii) There has been a material change 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.

Suitability of investments in client accounts

- (s) To comply with the requirements under Rules 1300.1(p), 1300.1(q) and 1300.1(r), the Dealer Member must use due diligence to ensure that:
- (i) The suitability of all positions in the client’s account is reviewed whenever a suitability determination is required; and
 - (ii) The client receives appropriate advice in response to the suitability review that has been conducted.

Suitability determination not required

- (t) Each Dealer Member that has applied for and received approval from the Corporation pursuant to Rule 1300.1(v), is not required to comply with ~~Rule~~[Rules](#) 1300.1(p), [1300.1\(r\)](#) and [1300.1\(s\)](#), when accepting orders from a client where no recommendation is provided, to make a determination that the order is suitable for such client.
- (u) Each Dealer Member that executes a trade on the instructions of another Dealer Member, portfolio manager, investment counsel, limited market dealer, bank, trust company or insurer, pursuant to Section I.B (3) of Rule 2700 is not required to comply with Rule 1300.1(p).

Corporation approval

- (v) The Corporation, in its discretion, shall only grant such approval where the Corporation is satisfied that the Dealer Member will comply with the policies and procedures outlined in Rule 3200. The application for approval shall be accompanied by a copy of the policies and procedures of the Dealer Member. Following such approval, any material changes in the policies and procedures of the Dealer Member shall promptly be submitted to the Corporation.”

2. References in Rules 1300 and 3200 to subsections 1300.1(p) and 1300.1(t) are amended as follows:
 - (a) References to existing subsection 1300.1(p) are repealed and replaced by references to new subsections 1300.1(p) and 1300.1(r); and
 - (b) References to existing subsection 1300.1(t) are repealed and replaced by references to new subsection 1300.1(v).

~~Proposals to implement the core principles of the~~ Client Relationship Model

~~Proposed Amendments~~ — Amended to Rule 200.1 – Minimum records

1. Rule 200 is amended by renumbering existing subsections 200.1(d) through (n) as subsections 200.1(g) through (q).
2. Rule 200 is amended by adding new subsections 200.1(d), 200.1(e) and 200.1(f) as follows:
 - “(d) Client account cost reports for all accounts other than those held by institutional clients, itemizing security position cost information as follows:
 - (1) For all new security positions added to the account on or after the latest of:
 - (i) [Date of implementation],
 - (ii) The date the account was opened or
 - (iii) If applicable, the date the account was received in by the Dealer Member as a transferred account,the original cost of the position.
 - (2) For all existing security positions in the account as of [Date of implementation], the original cost of the position. Where original cost information is unavailable or is known to be inaccurate, Dealer Members may elect to provide market value information as at [Date of implementation], or as at an earlier date (referred to as “point in time market value”) instead of original cost information, provided that it is done for all similar accounts and as at the same date.

Where the account was received in by the Dealer Member as a transferred account, the market value of the positions as at the date the account was received in via transfer (also referred to as “point in time market value”) may be used instead of original cost.

For each security position, the current market value as at the report date shall be provided as a comparison to the cost information. The basis for costing each position (either original cost or point in time market value) must be disclosed.Client account cost reports shall be sent to clients annually, at a minimum.
 - (e) For all accounts other than those held by institutional clients, client account performance information disclosing the annual and cumulative realized and unrealized income and capital gains in the client’s account. This account performance information shall be sent to clients annually, at a minimum.
 - (f) For all accounts other than those held by institutional clients, client account performance reports itemizing account annualized compound percentage returns for the [net performance of the](#) client’s account.

Account annualized compound percentage return information

Where the account has existed for more than one year, account annualized compound percentage return information shall be provided indicating the account’s [net](#) performance for the past one, three, five and ten year periods and for the period since account

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inception. Where the account has existed for less than one year, account annualized compound percentage return information shall not be provided.

The report containing the annualized compound percentage return information shall also contain:

(1) A definition of the term “compound percentage return”; and

(2) A description of the computational method used in determining the annualized compound percentage return information.

The computational method used in determining annualized compound percentage return information shall be a method acceptable to the Corporation. The report containing account annualized compound percentage return information shall be sent to clients annually, at a minimum.”

3. The Guide to Interpretation of Rule 200.1 is amended by renumbering guide items (d) through (n) as guide items (g) through (q).
4. The Guide to Interpretation of Rule 200.1 is amended by adding new guide items (d) through (f) as follows:

“(d) **“Client account cost reports”**

Reports must include all client account security and other investment product positions held by the Dealer Member for the client in nominee name or physically in client name and all other client account positions for which the Dealer Member continues to receive compensation, subject to the exceptions below.

Where, pursuant to Rule 200.1(d)(2), the original cost information is unavailable and the point in time market value amount cannot be reliably measured for an individual position held, the cost information for the position shall be reported as not determinable.

Where the market value for a particular position cannot be reliably measured, the current market value information for the position shall be reported as not determinable. In such instance, a disclosure in the client account cost report shall inform the client that the information is not determinable and why the information is not determinable.

The information provided in the client account cost report may be provided to the client on either a dollar amount or dollar amount per share basis.

The client account cost report may be provided to the client as part of the client account statement, referred to in Rule 100.2(c), or separately.

(e) **“Cumulative account performance information”**

The cumulative account performance information must be determined based on all client account security and other investment product positions held by the Dealer Member for the client in nominee name or physically in client name and all other client account positions for which the Dealer Member continues to receive compensation, subject to the exceptions below.

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Where there are one or more positions held in the client account for which the current market value is not determinable, the position(s) shall be considered to have no value in the determination of cumulative account performance. In such instance, a disclosure in the cumulative account performance information shall inform the client that the value of the positions has been set at nil for account performance calculation purposes and why.

~~At the option of the Dealer Member~~Where multiple accounts of the same client have the same investment objectives, clients may be ~~provided with~~offered the alternative of portfolio level (portfolio level being a consolidation of all account positions and debit/credit money balances of the same client) cumulative account performance information. Where the client consents to this alternative, the Dealer Member would not be required to provide performance information for each of the accounts included in the portfolio level reporting.

At the option of the Dealer Member, clients may instead be provided with cumulative account performance information that delineates advised/non-advised account positions. The cumulative account performance information may be provided to the client as part of the client account statement, referred to in Rule 100.2(c), or separately.

(f) **“Account annualized compound percentage return information”**

The account annualized compound percentage return information must be determined based on all client security and other investment product positions held by the Dealer Member for the client in nominee name or physically in client name and all other client account positions for which the Dealer Member continues to receive compensation, subject to the exceptions below.

Where there are one or more positions held in the client account for which the current market value is not determinable, the position(s) shall be considered to have no value in the determination of annualized compound percentage returns. In such instance, a disclosure in the annualized compound percentage return information shall inform the client that the value of the position(s) has been set at nil for percentage calculation purposes and why.

At the option of the Dealer Member, clients may be provided with portfolio level (portfolio level being a consolidation of all account positions and debit/credit money balances of the same client) annualized compound percentage return information.

At the option of the Dealer Member, clients may instead be provided with annualized compound percentage return information that delineates advised/non-advised account positions.

Account annualized compound percentage return information may be provided to the client as part of the client account statement, referred to in Rule 100.2(c), or separately.”