



Contact: Paige Ward
Director, Policy & Regulatory Affairs
Phone: 416-943-5838
E-mail: pward@mfd.ca

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MFDA Bulletin

Policy

For Distribution to Relevant Parties within your Firm

Transition Periods for MFDA Rule and Policy Amendments Implementing the Client Relationship Model Proposals

On December 3, 2010, staff issued [Bulletin #0458-P](#) *Amendments to MFDA By-law No. 1, Rules and Form 1 – Financial Questionnaire and Report*, which advised Members that proposed amendments implementing the MFDA Client Relationship Model (“CRM”) proposals have received all requisite approvals. The purpose of this Bulletin is to set out certain requirements under the MFDA CRM proposals and transition periods for such requirements, which are summarized in the table attached as Appendix “A”.

1. Relationship Disclosure Requirements

Rule 2.2.5 (Relationship Disclosure) requires that, on account opening, all clients be provided with written disclosure that sets out certain core information about the nature of their relationship with the Member and its Approved Persons. The required disclosure, which may be adopted in one document or several, includes a description of:

- the nature of the advisory relationship;
- products and services offered by the Member;
- the Member’s procedures regarding the receipt and handling of client cash/cheques;
- the Member’s obligation to ensure that each order accepted or recommendation made is suitable for the client and advising when the Member will assess the suitability of investments in the client’s account;
- definitions of the various terms with respect to the Know-Your-Client (“KYC”) information collected by the Member;
- the content and frequency of reporting for the account; and
- the nature of the compensation that may be paid to the Member.

Members must ensure that relationship disclosure materials are approved at the head office and/or branch level, maintain evidence that the required relationship disclosure has been provided to clients and take reasonable steps to notify clients when there is a significant change to relationship disclosure information that was previously provided.

Transition Periods

- **New Clients:** a transition period until September 28, 2011 is being provided to allow Members sufficient time to provide the relationship disclosure to new clients; and
- **Existing Clients:** a three-year transition period (expiring December 3, 2013) is being provided to allow Members sufficient time to address logistical issues involved in distributing information to existing clients.

2. Account Suitability Triggers/Updates to Client Information

Under MFDA Rule 2.2.1(e), Members and Approved Persons must use due diligence to ensure that the suitability of investments within each client's account is assessed:

- whenever the client transfers to the Member or transfers assets into an account at the Member;
- whenever the Member or Approved Person becomes aware of a material change in client information, as defined in Rule 2.2.4; or
- by the Approved Person, where there has been a change in the Approved Person responsible for the client's account at the Member.

Under Policy No. 2 *Minimum Standards for Account Supervision*, Approved Persons must assess the suitability of investments in each client account within a reasonable time, but in any event no later than the time of the next trade. Approved Persons must maintain evidence of all suitability assessments performed and any follow-up action taken with respect to the assessments. In addition to suitability assessments performed by the Approved Person, supervisory staff at the Member is also required to review the suitability of investments in client accounts using a risk-based sampling methodology, as set out in Policy No. 2.

Amendments to Rule 2.2.4, regarding the updating of client KYC information, provide greater detail as to the client authorization, verification, and approval requirements for such changes.

Transition Period

A one-year transition period (expiring December 3, 2011) is being provided in respect of new requirements under Rules 2.2.1 and 2.2.4.

3. Performance Reporting/Rates of Return

Under MFDA Rule 5.3.5 (Account Performance Reporting), information must be provided to clients on an annual basis with respect to the performance of the client's account at the Member.

For the annual period covered by the report, account performance reporting must include: the total market value of the account as at the start and end of the period, total assets deposited to and withdrawn from the account during the period, and gain or loss in the account as at the end of the period.

Where market values cannot be readily and reliably determined by the Member in respect of security positions held in the account, such values must not be included in the report and the Member must disclose to the client in the report the security positions for which values have not been included, as well as why the information has not been provided in the report.

Amendments to Rule 2.8.3 (Rates of Return), clarify that, where a client communication discloses a rate of return, the rate of return must be calculated in accordance with standard industry practice and also clarify Member supervisory obligations where such communications are issued by an Approved Person.

Transition Period

An 18-month transition period (expiring June 3, 2012) is being provided in respect of changes made under Rules 5.3.5 and 2.8.3.

4. Policy No. 2

A one-year transition period (expiring December 3, 2011) is also being provided to accommodate certain changes made under Policy No. 2, including:

- branch and head office trade review criteria/thresholds;
- amendments to the list of mandatory KYC information that must be collected on account opening; and
- the requirement, where any material changes have been made to the information contained in the New Account Application Form or KYC form(s), to promptly provide the client with a document or documents specifying the current risk tolerance, investment objectives, time horizon, income and net worth that apply to the client's account.

Appendix "A"

Summary of Transition Periods

Rule	Transition Period	Expiry Date
2.2.1 ("Know-Your-Client")	One year	December 3, 2011
2.2.4 (Updating Client Information)	One year	December 3, 2011
2.2.5 (Relationship Disclosure) – New Clients	Until September 28, 2011	September 28, 2011
2.2.5 (Relationship Disclosure) – Existing Clients	Three years	December 3, 2013
2.8.3 (Rates of Return)	18 months	June 3, 2012
5.3.5 (Account Performance Reporting)	18 months	June 3, 2012
Policy No. 2 <i>Minimum Standards for Account Supervision</i>	One year	December 3, 2011

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