Leverage Supervision Guide

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I. INTRODUCTION

MFDA Rule 2.2.1 (c) requires that each Member and Approved Person use due diligence to ensure that each order accepted or recommendation made for any account of a client is suitable for the client and in keeping with the client's investment objectives.

On April 14, 2008, MFDA staff issued Member Regulation Notice MR-0069 – "Suitability Guidelines" which provided guidance on assessing the suitability of leveraging.
This guide is not intended to replace Member Regulation Notice MR-0069 but rather, provide Members with further guidance and recommended best practices on developing leverage policies and procedures, analyzing Approved Person leveraging practices, maintaining appropriate documentation with respect to leverage recommendations and supervision and addressing unsuitable leveraging.

The guidance and recommended best practices set out in this guide would generally not be applicable to loans for investment in Registered Retirement Savings Plans or Registered Education Savings Plans.

II. ESTABLISHING A SUPERVISORY FRAMEWORK

To create an environment which both prevents and detects unsuitable leveraging practices, Members need to consider what limits and controls they will establish to monitor and guide the leveraging activity of their Approved Persons.

A. ESTABLISHING ACCEPTABLE LENDING ARRANGEMENTS

There are many kinds of loans available for investment purposes in the marketplace today (e.g. 3-for-1 loans, 2-for-1 loans, home equity lines of credit, etc). Members should consider which type of investment loans they will allow their Approved Persons to recommend to clients, which types of investment loans they will not approve and any specific conditions for recommending a particular type of investment loan.

Members should also establish a list of approved lending institutions and distribute this information to Approved Persons to ensure they are only dealing with approved lenders. Members should also consider asking their approved lenders to provide them with regular reporting on a client-by-client basis of details of loan balances, payments and any defaults or payments in arrears. Loan details received from the lending institutions can then be reconciled against the Member's own records to ensure that all loans have been recorded on the Member's books and records and have been subject to a supervisory review.

B. MAINTAINING LEVERAGE DETAILS ELECTRONICALLY

MFDA Policy No. 2 requires that leveraged accounts be readily identifiable for supervisory purposes. In many cases, this entails recording leverage information on Member systems. In order to perform a more efficient supervisory review of leveraged accounts, Members should consider whether changes need to be made to their back-office systems to record and store client lending details (e.g. date(s) of loan, lending institutions, type of loans, payment information and term of the loan) electronically.

C. Recruiting and Training

Members should have a due diligence process for hiring new Approved Persons. Where an individual has already been licensed in the industry, Members should assess the leveraging practices of any potential new hires. This would include interviewing the Approved Persons to understand their leveraging philosophy and practices as well as a review of the Approved Person's book to identify any potential leveraging suitability concerns.

Members should also train new Approved Persons on the firm's leveraging policies and procedures and provide examples of situations where leveraging would be unsuitable or contrary to the firm's policies. Members should also be alert to any recruiting and training efforts performed by Branch Managers or other Approved Persons that may not be consistent with the firm's established leveraging principles and practices.

D. Marketing

On May 12, 2008, MFDA issued MFDA Member Regulation Notice MR-0070 "Misleading Communications Regarding Leverage" to provide examples of the types of statements made with respect to leveraging in promotional or marketing material that MFDA considers misleading. Members should be aware of these types of statements when performing their normal course review of advertising and marketing material but should also consider this issue when reviewing Approved Person websites and performing branch reviews.

Members should also be aware of joint advertising, seminars or programs Approved Persons may be involved in with other parties who arrange financing. Where Members and Approved Persons knowingly allow other parties to provide communications to their clients with respect to leveraging, these communications should be held to the same standard as if the Member or Approved Person provided the communication directly to the client.

E. Referral Arrangements

Where any remuneration, direct or indirect, is received by an Approved Person or Member for referring a client to a financial institution for an investment loan, the arrangement must comply with MFDA Rule 2.4.2. MFDA has identified situations where an Approved Person and another party promote leveraged investing to the public and commissions and fees earned from investing are shared, directly or indirectly, with the other party. Members should consider how they will be able to properly supervise such arrangements given the other party is not subject to the Member's oversight. For example, Members should request information with respect to the communications or representations that will be made to clients with respect to leveraged investing and should also determine what controls are necessary to ensure the responsibilities of the Approved Person (collection of Know Your Client ("KYC") information, suitability assessment, recommending investments, etc) are not shared with or delegated to the other party.

III. SUPERVISORY REVIEW AND APPROVAL OF LEVERAGE RECOMMENDATIONS

It is imperative that Members establish written leveraging policies and procedures and distribute them to Approved Persons in order to provide guidance on the Member's leveraging criteria and clarification of when leveraging is not suitable for clients. Further, Members must develop policies and procedures for head office and branch supervisory staff relating to supervisory requirements for assessing and approving the suitability of leverage recommendations. MFDA Member Regulation Notice MR-0069 provides criteria for assessing the suitability of leverage recommendations.

It is also recommended as a best practice that Members implement procedures that require preapproval of leveraging recommendations before financing is obtained and transactions are executed. The MFDA has prepared a worksheet intended to assist Member supervisory staff in the preapproval of leverage recommendations made by Approved Persons. The Member should pre-approve the loan at both the head office and branch levels where the amount of the loan meets the supervisory thresholds at both tiers.

It is also recommended that Members develop policies and procedures with respect to the documents that must be maintained in client files for leveraged accounts. Such documents should include a New Account Application Form ("NAAF") for the leveraged account (i.e. applicable at the time of the leveraging), a copy of all loan applications, KYC updates or amendments, trade documents and notes supporting client instructions or authorizations. Members should also consider implementing policies and procedures requiring additional documents to be maintained in the client file. For example, supporting documentation pertaining to the client's income or net worth (i.e. T-slips, property tax assessments, appraisals), notes of client meetings, discussions or correspondence, financial plans, client risk assessments or investor profile questionnaires, any marketing or leveraged strategy or illustrations and any other documents relevant to the leverage strategy.

As part of their branch review programs, Members should review a sample of leveraged accounts and interview Approved Persons on their leveraging practices. When risk rating branch and sub-branch locations in accordance with MFDA Policy 5, Members should consider leverage as a risk factor and review Approved Persons or locations with larger books of leverage more frequently and/or earlier in their review cycle.

In all cases, a sufficiently detailed audit trail of all work performed by Member supervisory staff should be maintained.

A. APPROVING SPECIFIC LEVERAGE RECOMMENDATIONS

This section of the Guide outlines the objectives of the supervisory review of leverage recommendations and details several issues and considerations that supervisors should be alert to and investigate further if identified. Section III, B provides further guidance on the expectations for performing and documenting further supervisory inquiry and due diligence.

The objective of the supervisory review is to assess the suitability of the leveraging recommendation and identify any instances where the recommendation is not consistent with the Member's leveraging criteria.

KYC Considerations

Supervisors should identify and investigate further any instances where one or more of their leverage criteria with regard to risk tolerance, net worth, annual income, age, time horizon and investment knowledge have not been met. Additionally with respect to investment objectives, MFDA staff is of the view that leveraging recommendations are unsuitable for clients who have specified investment objectives of "safety" and are likely unsuitable for clients who have specified a significant portion (i.e. greater than 50%) of their objectives as "income".

Member supervisory staff should perform a critical review of client KYC information to ensure it is reasonable and is consistent with the client's circumstances. For example, significant alterations in KYC information in short spans of time in order to meet the Member's leverage criteria should be subject to greater scrutiny by reviewers. MFDA staff has noted cases where KYC amendments were processed shortly before or at the time of the leveraging recommendation that resulted in an increase to the client's stated risk tolerance, time horizon, investment knowledge, income or net worth.

Client income for leveraged clients should be analyzed carefully. Supervisors should be alert to cases where the amount reported for client income seems unreasonable given the client's occupation. Leveraging is likely unsuitable for unemployed, low income, self-employed (i.e. those with unstable income) or retired individuals. If clients are unable to make monthly loan payments from regular income sources, are relying on funds withdrawn from registered investments to finance interest costs or are relying on growth or distributions from the mutual funds to make loan payments the leveraging strategy is likely unsuitable. In some cases, Approved Persons have used household income in order to satisfy MR-0069 guidelines. Member supervisory staff will need to scrutinize income calculations to ensure that only the borrower(s)' income is incorporated into these calculations. Use of household net worth on leveraged applications is generally acceptable. However, as explained in Member Regulation Notice MR-0069, Member supervisory staff should ensure that net worth only includes assets of the account holder and his or her spouse.

Other scenarios which warrant further review include the use of "other assets" in order to satisfy net worth requirements. If a leveraging recommendation appears suitable and meets the net worth criteria only by virtue of the inclusion of "other assets" in the net worth calculation, the leveraging recommendation may be unsuitable and should be subject to further review.

Loan Considerations

Member supervisory staff should be alert to Approved Persons and clients using multiple loans as part of a leverage strategy. Approved Persons may evade effective Member scrutiny by recommending clients borrow from multiple institutions simultaneously or borrow several times over a span of time. MFDA has noted cases where liabilities were not fully disclosed, including situations where investment loans from one lender were not disclosed to another lender. In some cases, Approved Persons will recommend that various members of the same household borrow simultaneously. The aggregate of all leveraged or borrowed amounts should be incorporated into the net worth and income calculations. For example, if each spouse has their own individual loans as well as a joint loan, all of these loans should be incorporated into calculations of the couple's net worth.

Another scenario of concern that has been noted by the MFDA is the use of "2-for-1" or "3-for-1" loan programs in combination with home equity lines of credit or other financing. In these cases, clients will borrow using a line of credit from a financial institution to open an unregistered investment account. This unregistered investment account is then used to obtain a "2-for-1" or "3-for-1" loan. Therefore, a client who originally borrowed $100,000 with the line of credit may end up with $400,000 in investments all acquired with borrowed funds (i.e. assuming a "3-for-1" program is used).

The use of "interest only" loans to satisfy income requirements should be reviewed carefully. If clients are using interest only loans, Member supervisory staff should consider comparing interest and principal payments on these loans against client income to determine their suitability, particularly where the income criteria is close to being met. A tool to assist Members in the calculation of interest and principal payments is available on the Members Only Section of the MFDA website.

The MFDA has also noted cases where Approved Persons will recommend that clients obtain home equity lines of credit ("HELOCs") for investment purposes but do not consider it "leveraging" and do not record it in the Member's books and records. Members are reminded that these amounts are considered leveraged loans which should be subject to Member review.

Inconsistencies in Client Documentation

Supervisors should ensure that client KYC information is consistent between KYC forms, loan applications and other supporting documentation. MFDA has noted cases where loan applications and KYC forms are completed within a short timeframe of each other and have materially different figures for client income and net worth. Any inconsistency identified by supervisors should be resolved before providing supervisory approval for the leveraging recommendation.

Investment Considerations

As part of the review of leveraged accounts, reviewers should ensure that investments purchased with the leveraged funds are suitable and appropriate for a leveraging strategy. For example, leveraged accounts with a significant investment in money market funds whose return is less than financing costs would not be appropriate. Conversely, leveraged accounts with a significant investment in highly speculative investments which increase the risk to the client should warrant further review.

Leverage Rationale

For every leverage recommendation, the rationale provided by the Approved Person for the strategy should be documented in the client file in sufficient detail and Member supervisory staff should subject this rationale to critical analysis to ensure reasonability. For example, a rationale of "estate planning" does not provide sufficient detail and rationales such as "tax minimization" for elderly clients who have only small pension incomes would not be reasonable and should warrant investigation. Similarly, supervisors should carefully consider the suitability of recommendations to collapse registered plans into open leveraged accounts (i.e. RRSP or RRIF meltdowns).

Client Waivers

MFDA staff has observed instances where Approved Persons have recommended a leverage strategy and obtained suitability waivers from clients, particularly where MR-0069 leverage criteria have been triggered, in order to avoid responsibility and liability for the recommendation. Members and Approved Persons should not use waivers where they make a recommendation to leverage as clients cannot exempt them from compliance with their suitability obligation. If the strategy is unsuitable, it should not be recommended. However, there may be instances where clients transfer a leveraged account to a Member and the Member determines the leverage strategy is unsuitable. In these cases, Members should clearly indicate to the client why the strategy is unsuitable and the options available to them and maintain evidence of the advice given and the client's decision.

B. ADDITIONAL INQUIRY AND DUE DILIGENCE

Additional inquiry and due diligence will be required by Member supervisory staff when any of the issues noted above are identified. What further investigation is required will depend on the concerns identified but may include further inquiry regarding the rationale for the leveraging strategy and obtaining supporting documentation for client income and assets. In certain cases, the supervisor may need to communicate or correspond directly with clients to clarify or obtain sufficient information. In all cases, evidence of the due diligence efforts and any supporting documentation or information obtained should be maintained. Supervisors are expected to provide as much detail as possible on any inquiries made, including date of inquiry, name of person spoke with, details on discussions and date and method of resolution. Where a Member ultimately concludes that the leveraging recommendation is suitable the basis for that conclusion should be clearly documented. Where issues noted in Section III A are identified, the appropriate supervisory action may be to not approve the leverage recommendation.

IV. SUPERVISORY REVIEW OF APPROVED PERSONS' LEVERAGING PRACTICES

In certain circumstances, Members may determine that a review of an Approved Person's existing leveraged accounts is required. For instance, changes to Member policies and procedures regarding leveraging or receipt of transferred-in leveraged accounts should prompt a screening of an Approved Person's leveraged accounts to identify any issues requiring follow-up. Rewrites of existing client loans may also warrant a review to ensure these loans remain suitable after a rewrite. In addition, there are often cases where Members receive additional information that raise questions regarding the suitability of an Approved Person's previous recommendations or indicates that the Approved Person's leveraging practices require closer scrutiny. The following indicators may warrant a review of an Approved Person's leveraged accounts by supervisory staff:

a. Client complaints regarding leverage suitability;
b. Client defaults on investment loans;
c. Letters of indemnity issued to reverse leverage recommendations;
d. Approved Persons with greater than 30% of their client assets (i.e. either in dollars or by number of accounts) leveraged;
e. Approved Persons who recommend clients borrow from multiple institutions simultaneously;
f. Approved Persons whose clients all have the same or similar KYC information (e.g. all clients have a high risk tolerance and long term time horizon);
g. Approved Persons who reside at a Member location where unsuitable leveraging recommendations were prevalent amongst other Approved Persons; and
h. Approved Persons using advertisements, seminars or other marketing to promote leveraging.

A. PRELIMINARY SCREENING OF APPROVED PERSON LEVERAGING PRACTICES

A preliminary screening of an Approved Person's leveraged accounts should be conducted to identify any trends of concern in these accounts. The MFDA has prepared a worksheet intended to assist Member supervisory staff in a review of an Approved Person's leveraged accounts.

B. ON-SITE VISITS

In order to perform a thorough analysis of an Approved Person's leverage practices, Member supervisory staff will need to perform an on-site visit of the Approved Person's location. This on-site visit should entail a review of client files and interview(s) with the Approved Person. Members are reminded that their review of Approved Person leveraging practices should be documented in detail.

Reviewing Client Files

Member's supervisory staff should review the client files for the Approved Person's leveraged accounts in their entirety including specifically reviewing:

- the new account application form/ KYC form applicable at the time of the leveraging recommendation;
- all KYC updates both preceding and subsequent to the leveraging recommendation; and
- the loan application(s).

In addition, the following documents must be specifically reviewed if contained in the client file:

- documents supporting or pertaining to the client's income (T-slips, notice of assessment, etc.)
- financial plan(s);
- documents supporting or pertaining to the client's net worth including account statements, property tax assessments, appraisals, etc.
- client risk assessments or investor profile questionnaires;
- any marketing of the leveraged strategy or illustrations/ projections of investment returns or the future value of the account;
- notes of client meetings or discussions; and
- any other documents relevant to the review of the leverage strategy.

The objective of the client file review is to assess the suitability of the leveraging recommendation and identify any instances where the recommendation was not consistent with the Member's leveraging criteria. The reviewer should specifically note any instances where:

- the leverage criteria regarding age, income, net worth, risk tolerance, time horizon or investment knowledge are triggered when compared against the KYC form applicable at the time of the leveraging recommendation;
- the leverage criteria are triggered when compared against the client's current KYC information;
- KYC amendments were processed shortly before or at the time of the leveraging recommendation that resulted in an increase to the client's stated risk tolerance, time horizon, investment knowledge, income or net worth;
- client information on the NAAF/ KYC form is inconsistent with the information on the loan application;
- client financial information (income, net worth) as recorded on the KYC form or loan application is inconsistent with other client information or supporting documentation (e.g. client occupation, T4, financial plan);
- investor profiles/ questionnaires are inconsistent with the client's stated risk tolerance or other KYC information as stated on the NAAF/ KYC form;

- client liabilities were not fully disclosed, including situations where investment loans from one lender were not disclosed on an application to a separate lender;
- misleading information was provided to the client including failure to discuss the risks of the strategy or illustrations that only present positive returns without illustrating the effects of negative returns;
- the client's investment objectives are safety or a significant portion (i.e. greater than 50%) in income;
- the client is unemployed, low income, self -employed (i.e. unstable income) or retired;
- there is an indication that the loan is currently in arrears or in default; and
- there is evidence of client complaints.

<u>Interviews</u>

Interviews of Approved Persons should include questions relating to:

- the Approved Person's method of assessing client information such as risk tolerance, time horizon, income, net worth and investment knowledge;
- the criteria used by the Approved Person to assess whether leveraging is suitable for a particular client;
- how the Approved Person explains the risks associated with leveraging to clients;
- the names of the lenders the Approved Person uses and the types of investment loans or leverage investment strategies they recommend to clients;
- any additional documentation or information they obtain from clients to assess leverage recommendations; and
- any materials or tools used by the Approved Person to market leveraging to clients.

C. Investigation or Follow Up on Approved Person Leveraging Practices

Where issues have been identified with a particular Approved Person's leveraging practices by Member supervisory staff, all follow up or additional investigation should be documented. Additional follow up may include, but is not limited to the following:

- Interviews or correspondence with the requisite Approved Person(s);

- Member supervisory staff contacting client(s) directly (i.e. to confirm KYC information and confirm client's understanding of the risks);

- Obtaining additional support for or clarification of client financial information (i.e. proof of income and assets);

- Requiring that supporting documentation (i.e. proof of income and assets) accompany all leveraged recommendations submitted for supervisory approval.

V. PROCEDURES FOR RECTIFYING UNSUITABLE LEVERAGING

Where Members identify concerns with an Approved Person's leveraging practices, corrective action is expected to be taken by Member supervisory staff. Depending on the circumstances, corrective action may include prohibiting any further leveraging recommendations or marketing of leveraging by problematic Approved Persons and additional training for Approved Persons on the Member's leveraging requirements and procedures.

In addition, potentially unsuitable leverage will need to be addressed. Courses of action to address these accounts include Member supervisory staff communicating directly with clients to obtain further information and explain that the investment loans may be unsuitable. Where the leverage recommendation is determined to be unsuitable, Member supervisory staff should discuss the options available to the client that may include collapsing the financing arrangement in whole or in part. Any remedial action taken must be done in a fair and objective manner.

DOCs#205464

Notes & Instructions

Leverage Review Worksheet

General

This worksheet is intended for the use of Members' supervisory staff (i.e. compliance officers, branch managers) for the preapproval of Approved Persons' leverage recommendations to clients.
Alternatively, this worksheet may be used to assess the suitability of leverage in existing accounts (i.e transferred in or otherwise).
However, please note that it is advisable for the Member to have preapproval procedures in place for leverage recommendations in accordance with MFDA Member Regulation Notice MR-0069.("MR-0069").
As stated in MR-0069, a Member cannot rely on the approval of the lending institution as an indication of suitability.
This worksheet is intended to assist Member supervisory staff in an independent review of leverage recommendations made by Approved Persons.
To the extent that the leveraged amount meets the Member's criteria for a two tier trade review, the Member should preapprove the loan at both head office and the branch level.
Please note that the worksheet should be completed for each new loan in a client account.

1. Client Information

Client Information should be completed for each of the leveraged account holders.
Specific note should be made of situations in which clients are unemployed, self-employed or retired. In addition, specific note should be made of clients whose income is low or relatively unstable (i.e. supervisors should consider making the appropriate enquiries under Section 6 of this form.).

2. Loan Information

Please review the lending documents to complete this section of the form.
If lending documents are unavailable (i.e. recommendations made by other financial advisers, loan predates the account creation with the Member or the client arranges their own financing), every effort should be made to obtain the particulars of the loan so that its suitability may be assessed.
Imputed principal & interest payments on an interest only loan should be considered if the income guideline is close to being triggered with interest only payments.
In other words, if the income test is almost triggered with interest only, the loan is likely unsuitable for the client. A tool to help Members calculate these payments is available. (See Principal & Interest Payment Formula).
The term of the loan should be noted in months or years.
In cases where the loan has been outstanding for a period of time and the original loan amount differs significantly from the current outstanding amount, complete this information using the current loan value and note the original loan value.
Members should ensure that if clients have multiple loans, the details on each loan is noted here.

3. Client Financial Information

In the case of joint accounts, household financial information should be assessed. Therefore, all obligations of either account holder should be itemized here.
Conversely, if the leveraged account is in the name of a single person, any income itemized on this form should be confined to the single account holder.
If monthly payments on the loan are financed by withdrawals from registered investments or clients are relying on growth or distributions from the mutual funds in the leveraged accounts to make monthly payments on the loan, further inquiries should be made under section 6 of this form.
If clients have rent obligations rather then a mortgage, only the monthly payments column needs to be completed in the liabilities table and the balance outstanding may be omitted.

4. Supporting Documentation

When reviewing leveraged accounts, supervisors should ensure consistency of Know Your Client ("KYC") information with lending documents as well as other documents gathered under this section.
Please note that a copy of the original loan documents should be maintained in the client(s) file wherever feasible.
Support for assets should be carefully reviewed to ensure they are not encumbered in any manner and values presented on this form are realistic and consistent with values on supporting documents.
Similarly, supporting documentation for income should ensure that values on this form are based on realistic and sustainable amounts. For example, income amounts should not include items such as discretionary bonuses or other amounts that are not determinable or contractually guaranteed.
All support for liabilities should be reviewed to ensure the balances on this form and loan documents have not been underestimated.

5. Assessment of Leverage

The purpose of this section is to assess the KYC information on file for the leveraged account to ensure the loan is suitable when compared to leveraging guidelines.
Where the Member has their own guidelines for assessing leveraging suitability, these should be used. However, as a minimum, the criteria as set out in MFDA Member Regulation Notice MR-0069 should be used to assess suitability of leveraging. The guidelines as stated in MFDA Member Regulation Notice MR-0069 are noted in this section.
In situations where the KYC information for the leveraged account falls outside the guidelines, supervisors are expected to note this on the far right hand column of the table in this section with a"N". Further inquiries with the Approved Person and the client(s) (where necessary) should also be made under section 6 of this form.

Please note that the leverage amount as a % of net worth and liquid assets should include ALL investment loans outstanding for the client(s) and not simply the one being assessed on this form. In addition, cases in which loans appear suitable ONLY by virtue of other assets held by the client should warrant additional review in section 6 of this form.
Some Members may choose to incorporate other monthly obligations that the client has, such as utilities, condo fees and property taxes into their debt payments as a percentage of income test.
This test may be used as an additional check on the client's financial suitability for the loan(s) in question.
Any clients who indicate "safety" as an investment objective for ANY part of the leveraged account should warrant further review in section 6 of this form.
In addition, clients who indicate that the investment objective for the leveraged account is greater than 50% income should warrant further review in section 6 of this form.
Completion of this section should also entail a review of the KYC information for the account against lending and other supporting documents to ensure consistency of client information provided.
Supervisors are expected to attest to the consistency of the information here. If the information is inconsistent, a "N" should be indicated as a response to this question and details should be given in the box provided. As indicated on the form, the appropriate inquiries with the Approved Person and the client(s) (where necessary) should also be made under section 6 of this form.
In the case of every loan, the rationale provided by the Approved Person for the strategy should be indicated in as much detail as possible. Supervisors are expected to subject this rationale to some crtical analysis. For example, rationales such as tax minimization for elderly clients who have only small pension incomes should warrant further analysis and inquiries under section 6 of this form.
Other rationales that should be subject to further scrutiny include estate planning and RRSP/ RRIF meltdowns.

6. Compliance Actions Regarding Leverage

As stated above, any exceptions or noteworthy items are expected to be pursued in this section of the form. The items to be followed up on in this section include but are not limited to the following: any missing or inconsistent client or loan information, any exceptions to leveraging suitability criteria, client employment information which indicates this loan may not be suitable, investment objectives which indicate the loan may not be suitable, inability to make monthly loan payments from regular income sources or the rationale for loan is questionable.
Supervisors are expected to provide as much detail as possible on the inquiries including date of inquiry, name of person spoken with, details on discussions, date and method of resolution.
Where the inquiries cannot be documented in the table provided, supervisors are expected to create their own log of this information.
In addition, supervisors are expected to attach any additional support gathered in the inquiry process (e.g. emails or other correspondence, further supporting documentation gathered).

7. Approval of the Leverage

Given all the information gathered on the loan, supervisors are expected to either approve or decline the leveraging recommendation. Please note that this should only be done once all inquiries under section 6 of this form have been resolved. The "approve" or "decline" decision should be communicated to the Approved Person.
If the loan is declined and is an existing loan, supervisors should ensure proper procedures are followed to review the loan and the KYC information with the client(s).
Supervisors should consider both written correspondence and verbal discussions with client(s) to explain why the loan appears to be unsuitable given the client circumstances.
Clients should be provided with various options for dealing with unsuitable loans which should include unwinding the loan.
If the decision to approve or decline the loan warrants further explanation, such explanation should be provided in the comments box provided.

8. Approving Signatures

In this section, the supervisor(s) who have performed the review of the loan(s) should sign and date the form in the area provided.
This section must be completed regardless of whether the loan was approved or declined.

LEVERAGE REVIEW WORKSHEET

1. CLIENT INFORMATION

Client Name ____________________ Date of Birth ____________________

Client Name ____________________ Date of Birth ____________________

Occupation ____________________ Employer ____________________ Number of Years with Employer ______

Occupation of Co-Applicant ____________________ Employer ____________________ Number of Years with Employer ______

(Note: Clients who are listed as "unemployed", "self-employed" or "retired" should warrant further review)

Account Number ____________________ Approved Person Name ____________________

____

Full Name of Spouse (if not included above) ____________________ Rep. Code ____________________

2. LOAN INFORMATION

Loan Amount $ - Lending Institution ____________________

Loan Type (e.g. 2 for 1, 1 for 1 etc) ____________________ Interest Rate __________ %

Margin Call? (Y/N) __________ Monthly Payments $ -

Term of Loan __________ Payment Type (i.e. Principal & Interest, Interest Only) __________

Date of Loan ____________________

Is this loan new or tranferred in from another entity? New ______ Transferred In ______

3. CLIENT FINANCIAL INFORMATION

A. NET WORTH

LIQUID ASSETS (i.e unencumbered liquid assets, not including assets in registered or locked in plans)

Asset Type	Market Value	
Cash Account(s)	$ -	
Other Liquid Investments (e.g. GICs, Treasury Bills etc.)	$ -	
Other Non-Registered Investments (i.e. mutual funds, stocks, bonds etc)	$ -	
Other (specify)	$ -	
Other (specify)	$ -	
TOTAL LIQUID ASSETS	**$ -**	B

OTHER ASSETS

Asset Type	Market Value	
Primary Residence (if owned)	$ -	
Other Real Estate	$ -	
Registered Investments	$ -	
Vehicles	$ -	
Other (specify)	$ -	
Other (specify)	$ -	
TOTAL ASSETS	**$ -**	C

LIABILITIES

Debt Type	Name of Lender	Balance Outstanding	Monthly Payments	
Mortgage/ Rent On Primary Residence		$ -	$ -	
Other Mortgages		$ -	$ -	
Line(s) of Credit		$ -	$ -	
Vehicle Loan/Lease		$ -	$ -	
Credit Card Debt		$ -	$ -	
Other Liabilities (specify)		$ -	$ -	
Existing Investment Loan		$ -	$ -	
Existing Investment Loan		$ -	$ -	
Existing Investment Loan		$ -	$ -	
Proposed Investment Loan(s)		$ -	$ -	
Total Investment Loans	A	$ -	$ -	
TOTAL LIABILITIES		**$ -**	$ -	E
		D		

B. INCOME

Income Type	Name of Source	Gross Annual Income	Monthly Income	
Employment Income for Client #1		$ -	$ -	
Employment Income for Client #2 (if joint)		$ -	$ -	
Investment Income (not including income from proposed investments)		$ -	$ -	
Rental Income		$ -	$ -	
Other Income (specify)		$ -	$ -	
Other Income (specify)		$ -	$ -	
TOTAL		$ -	**$ -**	F

CLIENT NET WORTH CALCULATION

Total Client Net Worth (i.e. B+ C -D)	$ -	G

4. SUPPORTING DOCUMENTATION

Please attach a copy of any of the information obtained and circle "Y" below if attached.

1. Copy of Loan Agreement with Lending Institution (including amortization schedule if available) **Y/N**

2. Summary of Client(s)Portfolio Holdings **Y/N**

3. Proof of Real Estate Value (e.g. appraisal, property tax assessment) **Y/N**

4. Proof of Income (payroll information, T4, Notice of Assessment, lease agreements) **Y/N**

5. Support for Other Assets owned (e.g. account statements, appraisals) **Y/N**

6. Copy of Leveraging Disclosure Document provided to the client(s) **Y/N**
(Note: The document provided should comply with MFDA Member Regulation Notice MR-0074. In addition, the document should be explained to the client clearly and thoroughly. Evidence of its provision should be maintained in accordance with MFDA Member Regulation Notice MR-0064.)

7. Other documentation (e.g. bank or other statements regarding liabilities) Describe ____________________

5. ASSESSMENT OF LEVERAGE

Leverage Guidelines	KYC Information for Leveraged Account(s)		KYC Within the Guideline? (Y/N) *
Investment Knowledge Guideline: Clients engaging in leveraging should not have an investment knowledge of "low" or "poor"			
Risk Tolerance Guideline: Clients engaging in leveraging should not be below a "medium" risk tolerance			
Age (at time of leveraging) Guideline: Clients engaging in leveraging should not be older than 60			
Time Horizon Guideline: Clients engaging in leveraging should not have a time horizon of less than 5 years			
Leverage Amount as a % of Net Worth (i.e. A/G) Guideline: Total leverage amount should not exceed 30% of the client's total net worth. In additon, if multiple investment loans exist, ensure all are captured in this calculation			
Leverage Amount as % of Liquid Assets (i.e. A/B) Guideline: Total leverage amount should not exceed 50% of the client's liquid net worth. In additon, if multiple investment loans exist, ensure all are captured in this calculation			
Debt Payments as % of Client Income (i.e. E /F) Guideline : Debt payments should not exceed 35% of the client's gross income			
Investment Objectives Guideline: Clients with a significant portion of their investment objectives as "safety" or "income" should warrant further review	**Safety %**		
	Income %		
	Growth %		
	Balanced %		

***If any of the responses are "No", ensure that Part 6 of this form is completed.**

As supervisor, have you confirmed that the KYC information is consistent with the loan application or other documentation noted in Part 4? **Y/N** ______
If no, please note any exceptions below and ensure Part 6 of this form is completed.

What is the rationale for the strategy?

6. COMPLIANCE ACTIONS REGARDING LEVERAGE

(Note: This section must be completed for any exceptions identified above)

DATE	NAME	DETAILS	DATE OF RESPONSE	RESOLUTION
Provide the date of the inquiry	Provide the name of the individual that was spoken with (e.g. Approved Person, Branch Manager, client etc)	Provide Details of the Inquiry	Provide date of Response or Resolution	Provide details of Response or Resolution

Attach any additional supporting documentation obtained

7. APPROVAL OF LEVERAGE

Is the leveraging recommendation approved or declined given all the relevant client information? **Approve** ______ **Decline** ______

Comments

8. APPROVING SIGNATURES

Branch Manager Name ______________________

Branch Manager Signature ______________________ Date ______________

Compliance Officer Name ______________________

Compliance Officer Signature ______________________ Date ______________

Notes & Instructions

Approved Person Leveraging Analysis

General

This form is intended for use by supervisory staff when reviewing existing leveraged accounts of an Approved Person for suitability.
If there are any trends in Approved Person(s) recommendations of leverage to clients, this form should assist supervisory staff in identifying them.
It is recommended that Member's supervisory staff use this form under the following circumstances:
- Complaints are received from clients about an Approved Persons leveraging recommendations;
- An Approved Person transfers in existing leveraged accounts from another dealer that have not been subject to a review by the Member's supervisory staff for suitability;
-The Member's supervisory staff routinely performs this type of analysis on Approved Person(s)' leveraged accounts as part of a branch review or desk review; and
-The Member has updated their policies and procedures regarding leveraging and exisiting accounts of Approved Persons need to be reviewed
to determine where further review and analysis is required.

Please note that if any Approved Person has greater than 30% of their client assets (i.e. in either dollars or by number of accounts) in leveraged investments,
this should warrant careful review by supervisory staff of each of their leveraged accounts to ensure suitability.
Where client(s) have multiple loans, details should be provided for each loan outstanding in the loan information portion of this form.
Therefore, in the case of joint accounts, loans outstanding for both individuals jointly and separately should be itemized and assessed on this form.

APPROVED PERSON LEVERAGING ANALYSIS

Name of Approved Person ("AP") ______________________ Rep. Code ____________
Total # of Accounts Serviced by AP ______________________ Branch ____________
# of Leveraged Accounts Serviced by the AP ______________________
Percentage of AP Accounts which are Leveraged ______________________
Total AUA Serviced by the AP ______________________
Leveraged AUA of the AP ______________________
Perecentage of AP AUA which is Leveraged ______________________
Review Performed By ______________________
Date of Review ______________________

		Know Your Client Information											Loan Information*										
Account #	Client(s) Name	Date of KYC	Occupation	Employer	Investment Knowledge	Risk Tolerance	Age	Time Horizon	Net Worth	Liquid Assets	Annual Income	Investment Objectives	Date of Loan	Amount of Loan	Lending Institution	Type of Loan (i.e. 2 for 1, 1 for 1 etc.)	Monthly Payments	Payment Type (i.e. Principal & Interest, Interest Only)	Term of the Loan	Market Value of Leveraged Account	Leveraged Account Holdings (Provide detailed breakdown)	Rationale for the Leveraged Strategy	Comments/ Inquiries/ Follow Up Details

***Note: If client(s) have multiple loans, provide details on each loan held.**