

IIROC NOTICE

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Contact:

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Use of Business Titles and Financial Designations

In 2011, in response to the proliferation of business titles and financial designations' used by Registered Representatives² and Investment Representatives³ in the retail segment and the risk of resulting investor confusion, we conducted a survey among IIROC regulated firms to better

¹ The term "financial designation" is used generically throughout this notice to include credentials that are used to indicate that the individual has specialized knowledge or expertise in an area gained through education and/or experience.

² "Registered Representative" refers to the name of an individual IIROC licensing category. Individuals licensed as Registered Representatives are permitted to trade and provide advice to retail customers with respect to securities.

³ "Investment Representative" refers to the name of an individual IIROC licensing category. Individuals licensed as Investment Representatives are permitted to trade in securities for retail customers. An Investment Representative is not licensed to provide investment advice.



understand: (i) the use of business titles and financial designations by licensed individuals; and (ii) firm supervision and compliance practices in this area. In 2012, we followed up the survey by conducting investor focus groups and a series of one-on-one interviews with investor representatives.

The purpose of this notice is to report on the results of our Dealer Member Survey and our investor focused research. As part of our report we have also set out draft guidance regarding the responsibilities of Dealer Members and their licensed individuals with respect to the use of business titles and financial designations, including guidance as to best practices that may be adopted to help ensure that Dealer Members are able to properly supervise the business titles and financial designations being used by their licensed representatives in their dealings with retail clients.

Dealer Members, individual license holders and other interested parties are requested to provide comments on the draft guidance included in this notice. Comments should be made in writing and delivered by March 9, 2013.

Comments on the draft guidance may be delivered by mail, fax or e-mail by March 9, 2013 to:

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Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the IIROC website (**www.iiroc.ca** under the heading "IIROC Rulebook - Dealer Member Rules – Proposed Policy").



Also, in an effort to provide greater transparency and understanding about the different financial designations which appear to be in use on the IIROC platform, we are preparing a glossary of common designations that we will make available on our website. The glossary will include information about the financial designation, including the name of the issuing organization and educational requirements. The glossary is intended to be a tool to help investors make more informed choices when selecting an advisor.

I. Background

Dealer Member Survey

The Dealer Member Survey was sent to all IIROC regulated firms that conduct retail business which includes a cross section of large, medium, and small firms. The survey was geared toward gathering more specific information about the following:

- the range of business titles and financial designations currently used by licensed representatives, particularly those that imply expertise, training or specialization in advising senior investors;
- internal firm policies and procedures relating to the use of business titles and financial designations by licensed representatives in their dealings with retail clients;
- internal firm approval processes relating to the use of business titles and financial designations;
- any prerequisite training and proficiency requirements imposed by Dealer Members before particular business titles may be used by licensed representatives;
- existing supervisory and compliance monitoring processes at firms that ensure that firm policies and procedures in this area are being followed; and
- any client complaints received during the past two years regarding the use of particular business titles or financial designations by licensed representatives. 4

Our key findings from the Dealer Member Survey follow.

⁴ No firm reported the existence of any client complaints about the use of a particular business title or financial designation.



1. **Multiplicity of business titles and financial designations:** The survey results confirm that there is a wide array of business titles in use by licensed representatives both across firms and, in some cases, within the same firm.

Some of the more commonly used business titles that were reported through the survey include: Advisor, Financial Advisor, Financial Assistant, Investment Advisor, Senior Investment Advisor, Financial Consultant, Personal Finance Consultant, Financial Planner, Certified Financial Planner, Wealth Advisor, Investment Associate, Private Client Principal, Private Client Associate, Retirement Specialist, Consultant to Seniors, Vice President, Senior Vice President, and Managing Director.

Many of these business titles do not, on their own, provide a meaningful description of the type of services and/or investment products that a licensed representative can offer to a client. Some of these business titles imply that the individual carries out an executive function within a firm, for example, Senior Vice President, where the individual is not, in fact, a corporate officer of the firm.

Similarly, we found that there is a wide array of financial designations that licensed representatives possess and may put forward, in addition to their business titles, in their dealings with clients. The requirements to earn and maintain these financial designations vary greatly. Some financial designations, including professional designations like the Chartered Accountant designation, require a specified number of years of work or hours of classroom study, passing an examination, and continuing education. The requirements for others are much less rigorous; in fact, some financial designations may be obtained after a weekend seminar or through online self-study, with a self-administered examination. The financial designations reported through the survey also vary as to whether the designation granting body has formal complaint procedures, or compliance monitoring and disciplinary procedures. Simply put, the criteria to obtain and maintain these various financial designations vary widely. We also found that very few firms provide clients with any explanation of what these financial designations mean in practice.

- 2. **Policies and procedures and firm review/approval processes:** Fewer than half of all of responding firms (40.6%) had specific written policies and procedures in place relating to the use of business titles and financial designations by licensed representatives dealing with retail investors. The vast majority of firms (87% of those who responded) did have, however, a review and approval process for business title and financial designation use.
- 3. **"Senior" business titles or financial designations:** 11% of the firms that responded indicated that they have registered persons who use business titles or financial designations that imply expertise in senior investor or retirement-related investment planning. Where a



firm allowed its representatives to use a title such as "Retirement Specialist" or "Consultant to Seniors" or similar business titles, the firm generally required some level of training and proficiency as a prerequisite to using such a title. The types of training and proficiency requirements imposed by firms, however, varied widely in this area.

Investor Research

For purposes of our investor focused research, we retained an independent third party to conduct focus groups with investors and a number of one-on-one interviews with investor representatives. Our investor related findings are therefore directional, reflecting only the opinions of those who participated in the research. Our research was geared toward gathering more specific information about the following:

- how investors select an "advisor" and what criteria they consider in making that selection;
- the impressions investors have about the business titles and financial designations in use in the investment industry;
- investors' views and assumptions regarding the regulation of business titles and financial designations in the investment industry; and
- the role that investor education might play in addressing investors' questions about business titles and financial designations.

Our key investor findings follow.

- 1. **Main reasons for seeking help in managing investments:** Most individuals seek an "advisor" because they feel that they do not have the knowledge, skill and/or time to properly manage their investments. Some of the individuals interviewed stated that they are looking for someone they can trust and rely on.
- 2. What process do investors follow when selecting an advisor: Referrals (from family, friends, colleagues, or from someone at the individual's primary financial institution) are one of the main ways individual investors are likely to select an advisor. Most of the individuals that were interviewed indicated that they did not perform any independent follow up or due diligence before selecting their advisor. Investors who received a referral from someone working at their primary financial institution, indicated that their trust and confidence in the financial institution itself gave them sufficient confidence in the individual to whom they had been referred.



3. Awareness, meaning and importance of business titles and financial designations:
The vast majority of investors who participated in the focus groups could not recall the business title of their advisor. Similarly, recall of what financial designations their representatives held was limited. Interestingly, our research found that investors were divided as to how important business titles and financial designations are to entering into and maintaining a relationship with an advisor. Some viewed them as important while others viewed them more sceptically, with some suggesting that investment industry training and educational requirements are not as rigorous as those of other "professionals". Investor representatives generally believe that business titles and financial designations do have some influence on investors and are used to instill a sense of trust and/or to imply a particular expertise or skill.

Investors and investor representatives were also asked to provide their "top-of-mind" impressions on particular business titles. Investor representatives singled out the business titles of "Advisor", "Vice President", "Retirement Specialist" and "Seniors Specialist" as particularly problematic. Some investor representatives expressed concern that the title "Advisor" implies the individual is a fiduciary while they viewed the nature of the relationship as more akin to a "salesperson". The title "Vice President", on the other hand, was generally perceived as creating the impression that the individual is someone senior at the firm and the title may therefore induce reliance and trust on the part of the client. Finally, titles which imply expertise with senior issues were generally criticized because of a concern that they target a vulnerable segment of the market and there does not appear to be a generally recognized and uniform standard that must be met before someone can identify themselves as possessing specialized knowledge in this area.

Investors that were interviewed did not appear to place the same level of importance on business titles per se, but did indicate that certain business titles like "Senior Investment Advisor" tend to connote that the individual was likely a "go to" person at the firm who possessed significant experience and expertise. Investors generally also did not find titles based on the individual's registration and/or IIROC approval category (e.g. "dealing representative", "registered representative", or "investment representative") meaningful.

4. Views about oversight over business titles and financial designations: The majority of investors in the focus groups assumed (but were not sure) that there is some oversight over the business titles and financial designations used by representatives – either at the firm level itself or by some regulatory body. Some investors indicated that they could benefit from more education and tools in this area to help them better understand what the different financial designations really mean. Investor representatives interviewed did not believe that existing industry and regulatory oversight over the use of business tiles



and financial designations is satisfactory or that it addresses the risks that investors face in this area, although they were divided as to what should be done in this area. Some advocated for strict prohibitions against the use of certain business titles or rules governing the use of permissible business titles; some called for greater investor education; and some advocated for the adoption of a fiduciary standard governing the conduct of individuals providing investment advice.

II. Proposed Guidance Note

Implementing "Best Practices" and Supervisory Systems

Dealer Members and their representatives have an overarching regulatory obligation to deal fairly, honestly and in good faith with clients.⁵ No IIROC approved person should hold his or herself out to the public in any manner, including without limitation, by the use of a business title or designation of qualifications or professional experience that deceives or misleads, or could reasonably be expected to deceive or mislead, a client or any other person as to their proficiency or qualifications. IIROC expects that firms will implement policies and procedures on business titles and use of financial designations that will promote greater transparency for potential and existing clients, particularly the more vulnerable and less sophisticated investors.

These policies and procedures should be adapted to the firm's business model and account offerings and include guidance on what business titles and financial designations may be used and any restrictions or prohibitions in this area, including any pre-approval requirements. These policies and procedures should be clearly communicated to the firm's representatives and enforced by the firm.

In considering what business titles to use for its retail business, the firm should consider the actual role and function the individual is licensed to undertake and the services and/or products they are licensed to provide to clients. In that regard, it should be recognized that the business titles that representatives are allowed to use can be confusing to the average investor and/or imply particular expertise or give rise to client expectations. To mitigate against public confusion and increase public understanding of an individual's registration status, business titles should be coupled with public disclosure and plain language explanation of the individual's IIROC approval

⁵ See IIROC Dealer Member rule 29.1 and the s.11.1 of the Companion Policy to National Instrument 31-103.

⁶ The firm's Policies and Procedures should include use of business titles and financial designations by firm Registered Representatives, Investment Representatives, and any other client facing employees and/or agents.

⁷ Dealer members may wish to consider obligations under proposed new Rule 3500, Relationship Disclosure, when developing policies and procedures on business titles and financial designations.



category, corresponding proficiencies, and IIROC as the licensing body. Depending on the firm's business model, firms should consider centralizing the review and approval process relating to the use of business titles and financial designations in general, and particularly those used in relation to senior investors and retirement planning, to ensure consistency. To the extent that a firm uses a number of business titles, the policies and procedures should set out the criteria for each title.

Responsibility for monitoring the use of business titles and financial designations should be assigned to a specific individual or department within the firm. Ideally, this process should involve the review of both a business location Supervisor as well as the firm's Compliance Department, but we recognize that a more streamlined process may be more appropriate for smaller firms. Also consider random testing of attestations with any accreditation-granting organization and/or as part of social media use supervision.⁸

When deciding whether to approve the use of a financial designation, consider whether the designation has: (i) a rigorous curriculum; (ii) an emphasis on ethics; (iii) a continuing education requirement; (iv) a method for determining the individual's current status regarding the designation; (v) a public disciplinary process; and/or (vi) been issued by a reputable or accredited organization.

In developing firm criteria in this area, firms should recognize that certain types of clients, such as the elderly, may be particularly vulnerable to certain risks. Firms are reminded that if they permit firm representatives to use financial designations of any kind, including those that suggest an expertise in retirement planning, firms must have procedures in place to ensure that those financial designations are appropriate.

IIROC's Business Conduct Compliance has enhanced its modules to monitor firms' activities in this area in ongoing compliance reviews.

⁸ See Guidance Note 11-0349 issued December 2011.