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CLIENT RELATIONSHIP MODEL

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Client Relationship Model (CRM)

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CRM - Agenda

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- Model objectives
- Initial conceptual model
- OSC / CSA policy development
- “Direction Document” model
- SRO policy development to date
- Specific draft proposals
 1. Account opening and client relationship
 2. Performance reporting
 3. Account risk disclosure
- Planned rulemaking consultation process





CRM - Model objectives

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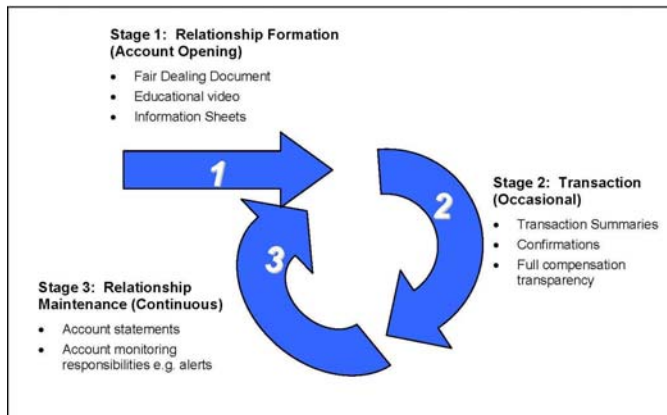
- To make clear the roles and responsibilities of both the financial services provider / advisor and the client irrespective of the type of account relationship (i.e., advisory, managed, order execution only)
- To make transparent all dealings the financial services provider / advisor has with the client, both at the time of a transaction and on an ongoing basis (including the essential features of individual investments, risk, compensation and account performance)
- To manage and/or disclose financial services provider / advisor conflicts



CRM – Initial conceptual model

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Tracking the Client Relationship Model through the three stages of a relationship





CRM – OSC / CSA policy development

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- Fair Dealing Model (FDM) commenced in February 2000 with the establishment of an OSC Fair Dealing Model Committee
- The core ideas of FDM were presented in April and May 2002 at a series of focus group meetings; focus groups were comprised of industry participants with compliance, marketing and operations expertise
- Committee work culminated in the publication of the FDM Concept Paper in January 2004
- OSC Working Groups met during the first half of 2004 to try to flesh out the rulemaking required to implement the FDM



CRM – OSC / CSA policy development

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- CSA adopted FDM in September 2004 as part of the Registration Reform Project
- Three CSA FDM Working Groups were established to deal with:
 1. Account opening documentation
 2. Costs, conflicts and compensation transparency
 3. Performance reporting
- The Working Group direction documents were finalized and approved by the CSA in May 2005
- The FDM was re-branded as the Client Relationship Model (CRM) in August 2006

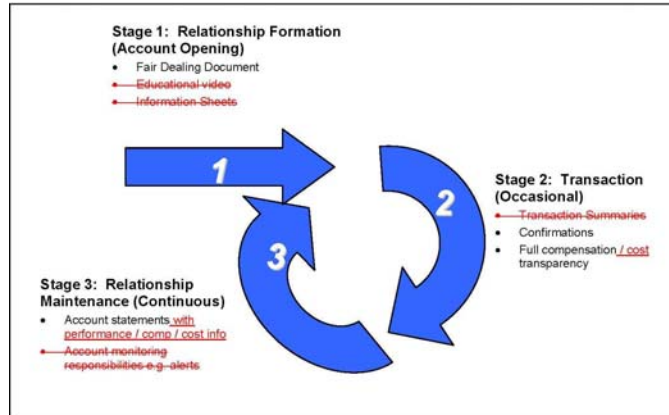




CRM – “Direction Document” model

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Effective revisions to conceptual model



CRM - SRO policy development to date

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- A joint IDA/MFDA rulemaking committee, the SRO Rulemaking Committee was established in June 2005
- To enable proper review of any rulemaking proposals, three subcommittees were established as follows:
 1. Compliance Subcommittee
 2. Operations / Technology Subcommittee
 3. Retail Sales Advisers / Managers Subcommittee
- SRO draft proposals relating to account opening and the client relationship were approved by the SRO Rulemaking Committee in May 2006
- SRO draft proposals relating to performance reporting were approved by the SRO Rulemaking Committee in August 2006





CRM - Specific draft proposals relating to Account Opening and Client Relationship

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Overview

- Focus of proposals is on the advisory account relationship
- Proposals would mandate that every client be provided with a “Relationship Disclosure Document”
- Document requirements address:
 - Information the firm/advisor will provide to the client and other firm/advisor obligations
 - Information the client should provide to the firm/advisor and other client obligations
 - Manner in which the information should be provided



CRM - Specific draft proposals relating to Account Opening and Client Relationship

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Information the firm/advisor will provide to the client and other firm/advisor obligations

- Relevant products/services available
- Investment risk factors to consider
- How services meet client’s objectives
- Extent of advisor/firm obligation to recommend investments that are suitable
- Fees/charges/compensation to the advisor/firm
- Conflicts of interest
- Statement and performance reporting frequency





CRM - Specific draft proposals relating to Account Opening and Client Relationship

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Information the client should provide to the firm/advisor and other client obligations

- Advise of material changes
- Review account documentation
- Understand fees and costs
- State expectations
- Be aware of risk
- Review performance regularly
- Proactively resolve issues



CRM - Specific draft proposals relating to Performance Reporting

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Overview

Focus of proposals is to inform clients whether their:

- Current investments are making money
- Account has grown in value over time
- Account performance is satisfactory





CRM - Specific draft proposals relating to Performance Reporting

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Proposed Account Cost Report

- **Cost information to be provided** on a security position by security position basis, book cost information along with a market value comparative
- **Frequency of disclosure:** annually
- **Format of disclosure:** part of customer statement or separately
- **Security positions subject to the requirement**
 - ➔ positions held by Member firm for customer in nominee name
 - ➔ positions held by Member firm for the customer physically in client name
 - ➔ all customer account security positions for which the Member firm continues to receive compensation




CRM - Specific draft proposals relating to Performance Reporting

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Proposed Account Cost Report (con't)

- **Transitional arrangements**
 - ➔ **New positions:** Retain / disclose book cost information as the security cost
 - ➔ **Existing positions:** Book cost or market value information retained / disclosed as the security cost
 - ➔ **Identify costing method**





IDA SECURITIES
DEALER


CANADIAN DOLLAR
ACCOUNT COST REPORT

DEC. 31
2005

Account number: XXX-XXX-XX-XX Page 1 of 1

SECURITY SYMBOL	QUANTITY	BOOK VALUE	MARKET VALUE	
FIXED INCOME				
GOVERNMENT OF CANADA, JUN 1, 2007	50,000	\$50,000.00	\$52,330.00	
BANK OF NOVA SCOTIA, NOV 19, 2008	75,000	\$75,000.00	\$75,750.00	
BANK OF MONTREAL, JAN 31, 2011	75,000	\$75,000.00	\$76,410.00	
HYDRO-QUEBEC, FEB 15, 2011	50,000	\$50,000.00	\$55,190.00	
GOVERNMENT OF CANADA, JUN 1, 2013	75,000	\$75,000.00	\$81,345.00	
GOVERNMENT OF CANADA, JUN 1, 2021	50,000	\$50,000.00	\$82,820.00	
PROV OF BRITISH COLUMBIA, SEP 8, 2023	50,000	\$50,000.00	\$71,910.00	
Total amounts for fixed income		\$425,000.00	\$495,755.00	
COMMON SHARES				
AGNICO-LAGLE MINES LTD	AGE	3,400	\$50,490.00	\$59,908.00
ATI TECHNOLOGIES INC	ATY	3,300	\$60,225.00	\$65,340.00
BALLARD POWER SYSTEMS INC	BLD	16,270	\$52,877.50	\$80,048.40
BANK OF NOVA SCOTIA (THE)	BNS	874	\$19,717.44	\$40,326.36
CANADIAN NATIONAL RAILWAY COMPANY	CNR	1,139	\$45,218.30	\$53,043.23
CCL INDUSTRIES INC	CCL.B	2,423	\$45,600.86	\$69,661.25
ENCANA CORPORATION	ECA	1,237	\$35,130.80	\$65,016.72
GEORGE WESTON LIMITED	WN	753	\$53,952.45	\$64,991.43
MAGNA INTERNATIONAL INC	MJ.A	300	\$14,625.00	\$25,200.00
RESEARCH IN MOTION LIMITED	RM	800	\$29,880.00	\$61,400.00
THOMSON CORPORATION (THE)	TOC	2,143	\$39,789.70	\$84,991.38
Total amounts for common shares		\$467,507.85	\$669,926.77	
FOREIGN SECURITIES				
AMERICAN EXPRESS CO	AXP	1,000	\$44,829.19	\$61,385.10
COCA-COLA CO	KO	1,243	\$69,997.55	\$59,997.90
GENERAL MOTORS CORP.	GM	2,500	\$75,346.86	\$60,627.26
PFEZER INC	PFE	1,000	\$19,878.75	\$28,681.36
SONY CORPORATION	SNE	1,500	\$74,664.76	\$69,186.88
WAL-MART STORES INC	WMT	1,000	\$44,486.56	\$53,340.33
Total amounts for foreign securities		\$329,153.68	\$333,218.82	
Total amounts for all securities		\$1,221,660.73	\$1,498,900.59	

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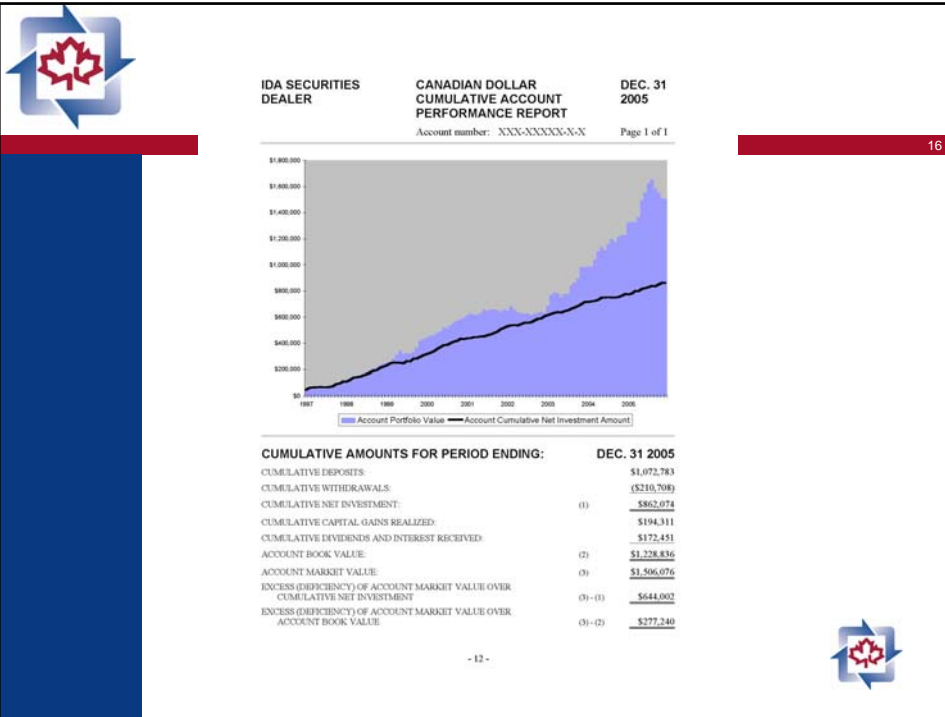

CRM - Specific draft proposals relating to Performance Reporting

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Proposed Cumulative Account Performance Report

- **Information to be provided:**
 - Cumulative deposits
 - Cumulative withdrawals
 - Cumulative net investment amount
 - Cumulative income and capital gains realized
 - Account book value
 - Account market value
- **Frequency of disclosure** - annually
- **Format of disclosure** - as part of customer statement or separately
- **Security positions subject to the requirement** - same as for Account Cost Report



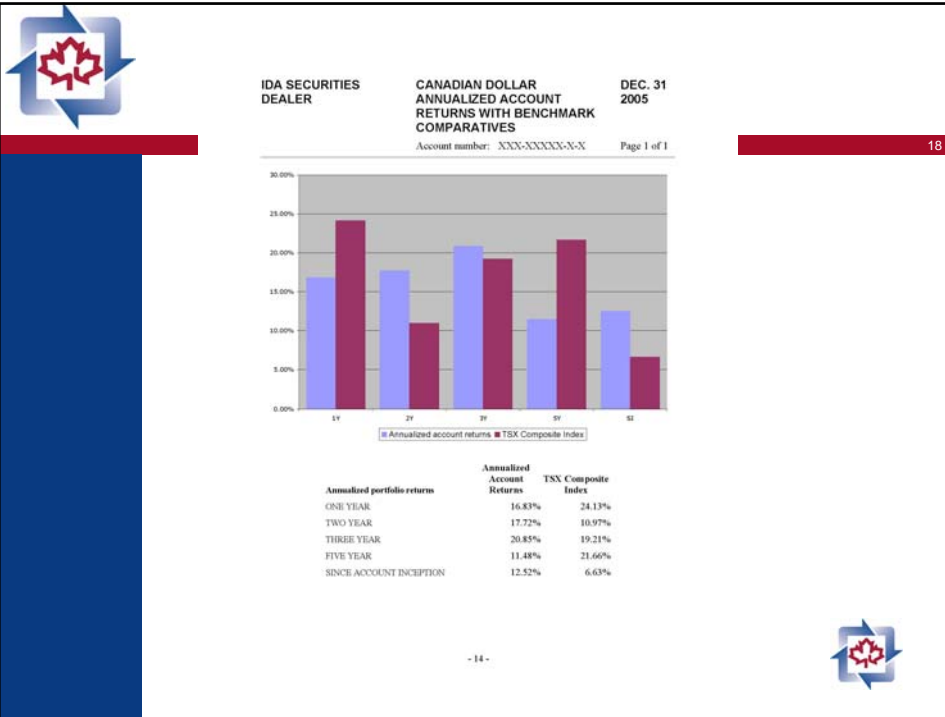


CRM - Specific draft proposals relating to Performance Reporting

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Proposed Account Percentage Return Report

- **Percentage return information to be provided** in accordance with CFA Institute Global Investment Performance Standards for past 1, 3, 5 and 10 year periods and since account inception
- **Benchmark return information to be provided** where appropriate
- **Frequency of disclosure** - annually
- **Format of disclosure** - as part of customer statement or separately
- **Security positions subject to the requirement** - same as for Account Cost Report



- ## CRM - Specific draft proposals relating to Account Risk Disclosure
- **CRM Recommendation:** An advisory account client should be provided with the necessary risk information to enable them to perform their own account risk assessment
 - **IDA Concern:** How do you provide risk reports with sufficient detail to enable a client to perform their own account risk assessment?
 - **IDA Draft Proposal relating to risk:**
 - ➔ Rather than risk disclosure the focus should be on ongoing portfolio suitability, taking into account a number of factors including risk
 - ➔ Each Member firm must disclose its current suitability review practices to clients in the Relationship Disclosure Document
 - ➔ Each Member firm must make available an advisory account that includes a periodic suitability review



CRM - Planned rulemaking consultation process

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- Initial consultations with IDA/MFDA Compliance Subcommittee, IDA/MFDA Operations / Technology Subcommittee and IDA/MFDA Retail Sales Advisers / Managers Subcommittee now complete for the account opening and performance reporting proposals
- Advisor consultation held on August 16th and analysis of written advisor feedback will be completed shortly
- Initial drafts of account opening and performance reporting proposals will be circulated at September meetings of the CLS and the FAS and at subsequent District Council meetings
- Final IDA committee/council approvals by the end of the year
- Final IDA Board approval in January 2007

