



Decision of the Board of Directors
of the Investment Industry Regulatory Organization of Canada

IN THE MATTER OF
BMO InvestorLine Inc.
Application concerning the proposed offering of adviceDirect

(the “exemption order”)

On June 27, 2012, IIROC’s Board of Directors (the “IIROC Board”) considered the application submitted by BMO InvestorLine Inc. (the “BMO InvestorLine”) requesting an exemption from certain aspects of IIROC Dealer Member Rules 1300.1 and 2500.

IIROC Dealer Member Rule 17.15 states that the IIROC Board may exempt a Dealer Member from the requirements of any provisions of the IIROC Rules where it is satisfied that to do so would not be prejudicial to the interests of the Dealer Members, their clients or the public.

IIROC Dealer Member Rule 1300.1 requires Dealer Members to use due diligence to learn and remain informed of the essential facts relative to every customer and to ensure the suitability of every recommendation and order accepted based on factors including a client’s investment objectives and risk tolerance. IIROC Dealer Member Rule 2500 specifies that the “know your client” and suitability assessment requirements are the primary responsibility of the Registered Representative and imposes specific requirements on a Registered Representative regarding the account opening documentation and the relevant updates. BMO InvestorLine has not requested to be exempt from the “know your client” and suitability assessment requirements and as such will remain subject to those requirements as would any other full service advisory Dealer Member.

BMO InvestorLine plans to offer an on-line advisory account (an “adviceDirect” account) such that “know your client” information collection and suitability assessment will not be the primary responsibility of the adviceDirect Registered Representative, rather it will be the adviceDirect computer system that will make recommendations and assess suitability; the Registered Representative will only have a supportive role.

Clients will provide their “know your client” information and other relevant account opening information to BMO InvestorLine through an on-line form, in paper format or through discussions with a Registered Representative. In the course of completing the form, the client has the option of indicating which of the four available investor profiles they believe is the most suitable for them. Prior to the approval of the opening of an adviceDirect account, an adviceDirect Registered Representative or Branch Manager will contact the client to discuss the client’s “know your client” information, following which they will recommend one of four investor profiles to the client. If, based on the discussions with the client, the Registered Representative/Branch Manager determines that none of the four investor profiles offered under the adviceDirect offering is suitable for the client, or if an adviceDirect account is generally not suitable for the client, then the account application would not be approved. Once the account is opened, the adviceDirect system provides buy, hold or sell recommendations directly to the client electronically. The client self-selects one or more securities from the list of securities recommended by BMO InvestorLine that have been determined to be suitable for the client’s particular investor profile. The client may also execute a transaction in a security of the client’s own choosing, provided the account portfolio, post trade, continues to be suitable for the client. Trade recommendations, as well as suitability assessments will be provided by/conducted through the adviceDirect computer system. The adviceDirect Registered Representatives are only permitted to discuss the recommendations provided by the adviceDirect system and may not provide recommendations that are inconsistent with what is recommended by the adviceDirect system. As such, the adviceDirect Registered Representatives only have a supportive role.

BMO InvestorLine has also filed an exemption Application with the Ontario Securities Commission, as its principal regulator, for an exemption from section 8.23 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103). Section 8.23 of NI 31-103 includes a general exemption for dealers, and dealing representatives acting on behalf of the dealer, from the adviser registration requirement when giving non-discretionary advice (i.e., suitability recommendations) in the ordinary course of the dealer’s business if the advice is: (a) in connection with a trade in a security that the dealer and the representative are permitted to make under his, her or its registration; (b) provided by the representative; and (c) not in respect of a managed account.

Without the exemption sought, BMO InvestorLine would be subject to adviser registration since it does not satisfy all the conditions of the adviser registration exemption in section 8.23 of NI 31-103 because the advice to an adviceDirect client is not provided solely through an individual representative as is suggested in paragraph 8.23(b) of NI 31-103.

More specifically, the representations made by BMO InvestorLine include the following:

BMO InvestorLine:

- (1) BMO InvestorLine is:

- (a) a corporation incorporated under the laws of Canada and has its head office in Toronto, Ontario;
- (b) is registered in each of the Filing Jurisdictions as an investment dealer and is a member of the Investment Industry Regulatory Organization of Canada (IIROC); and
- (c) operates as a discount broker and is exempt from suitability requirements under securities legislation and under IIROC's rules in respect of the discount brokerage service.

adviceDirect

- (2) adviceDirect is a fee-based full service brokerage service offering what IIROC refers to as "advisory accounts" which includes suitability recommendations through an online platform with involvement by Registered Representatives of BMO InvestorLine.
- (3) adviceDirect takes a long term, disciplined and classical approach to advising clients on their investments and therefore is not suitable for active traders, day traders and other excessive trading strategies. adviceDirect advises clients to diversify their portfolios over various asset classes as opposed to an individual stock picking approach.
- (4) adviceDirect will not permit clients to short sell securities or trade options or to trade in futures, commodities, or foreign exchange.
- (5) Four investor profiles are available under adviceDirect. These investor profiles are described to the potential client during the application process and each description includes a statement about time horizon and risk tolerance.
- (6) adviceDirect is based on an analysis engine that evaluates a client's portfolio holdings against his or her recommended investor profile and then provides recommendations (e.g. buy, hold or sell) directly to the client. A client's portfolio is analyzed on four elements – ratings, asset allocation, risk and diversification.
- (7) Each adviceDirect account is subject to continuous overall portfolio suitability review to determine whether the overall composition of the client's portfolio continues to be suitable for the client and the client will be alerted immediately of any discrepancies allowing appropriate corrective action to be taken.
- (8) A team of adviceDirect Registered Representatives will be assigned to each adviceDirect client.
- (9) adviceDirect is overseen by a committee, the adviceDirect Review Committee (ARC) that will be comprised of senior management and subject matter experts from BMO InvestorLine and/or BMO Financial Group. Each ARC member will be an IIROC approved person in either an executive, supervisor or registered representative approved category. The ARC members plus various subject matter experts will assist in guiding the future

development of adviceDirect; as well as provide input on the operations and performance characteristics of adviceDirect.

- (10) adviceDirect meets IIROC's suitability assessment requirements subject to any relief from such requirements granted by IIROC to BMO InvestorLine in respect of adviceDirect.

Account opening, collection of know-your-client (KYC) information and recommendation of investor profile

- (11) The adviceDirect account opening process involves the following four stages (which are summarized in paragraph 13 below):

Stage 1: Collection of personal information and client verification;

Stage 2: Collection of investment related information;

Stage 3: Discussion between adviceDirect Registered Representative and the applicant; and

Stage 4: Review and approval/denial.

- (12) During the account opening process, the applicant has access to online help and definitions. Explanations about the account opening form are available to the applicant during the account opening process. There are clear and complete descriptions of terminology used in the account opening process and explanations of the reason for collecting the information available to the applicant. The applicant also has the option of contacting an adviceDirect Registered Representative during the account opening process to receive assistance. The adviceDirect account opening process also includes each applicant being called by an adviceDirect Registered Representative to discuss his or her application prior to the application being approved (as described under Stage 3 in paragraph 13 below).
- (13) The following is a summary of the components of the KYC information collected during each stage of the adviceDirect account opening process.

Stage 1

- (a) Personal information and client verification: The initial stage of the adviceDirect account opening process collects information about the applicant including name, address, email address, citizenship, SIN number, type of account and where applicable, credit history. After this information is collected, adviceDirect conducts an authentication of the applicant using the services of Equifax Canada Inc.
- (b) Once the authentication process has been completed, the applicant will be permitted to continue with the account opening process and will be required to provide further information including employment, income, net worth and sources of funds.

Stage 2

- (c) Investment objectives, investment needs and time horizon: After providing the personal information described above, the applicant is asked to set out his or her investment objectives, investment needs and time horizon through a series of questions which will help identify the applicant as having either an income, balanced, growth or aggressive objective.
- (d) Investment knowledge and experience: adviceDirect also collects information about the applicant's investment knowledge - the categories are Limited (little understanding of investing and limited experience with different types of investments), Average (understand investing basics and have some experience with different types of investments), Good (comfortable understanding of investing and a good deal of experience with different types of investments) and Expert (excellent understanding of investing and a great deal of experience with a variety of investments and strategies).
- (e) An applicant is asked about investing experience with various investment products such as cash, fixed income securities and equities. In each of these categories there are questions about whether the applicant has obtained experience with specific products such as treasury-bills, bonds, income trusts or private placements.
- (f) Risk tolerance and account objectives: An applicant is asked about his or her risk tolerance and account objectives in the application. In addition, the adviceDirect Registered Representative will discuss the applicant's risk tolerance and account objectives directly with the applicant during Stage 3 of the account opening process.
- (g) Investor profile: There are four investor profiles available under adviceDirect – income, balanced, growth and aggressive growth. As part of the online application, an adviceDirect applicant is asked to identify (either independently or with the assistance of an online investor profile questionnaire that the applicant has the option of completing) which investor profile he or she believes best suits him or her however, it is the adviceDirect Registered Representative's responsibility to recommend a suitable investor profile for each applicant.

Stage 3

- (h) Discussion with adviceDirect Registered Representative: Prior to the account application being approved, an adviceDirect Registered Representative will call the applicant after the application has been completed to discuss the application including the following:

- (i) the nature of the adviceDirect service offering, including the fees associated with the account, the order types that are permitted under adviceDirect, the suitability notifications and how they work and funding of the account;
 - (ii) the applicant's risk tolerance, investment knowledge, investment objectives, investment needs, investment time horizon, account objectives and any other relevant information, so that the applicant has a clear and complete understanding of why the information was gathered, and how adviceDirect uses the information to ensure suitable recommendations are made for the individual;
 - (iii) the investor profile identified by the applicant (either independently or with the assistance of the online investor profile questionnaire) in the online application. The adviceDirect Registered Representative is responsible for making a recommendation about which investor profile is suitable for the applicant based on the KYC information collected online (including the answers to the online investor profile questionnaire if completed) and the discussion between the applicant and the adviceDirect Registered Representative. If none of the four investor profiles available under adviceDirect is suitable for the applicant, or if the adviceDirect Registered Representative has determined that an adviceDirect account is not suitable for the applicant, the adviceDirect Registered Representative will not recommend that the applicant open an adviceDirect account and that the application be denied.
- (i) The KYC information collected through the online application process and during the discussion between an applicant and an adviceDirect Registered Representative will be documented.
 - (j) The Filer will maintain appropriate systems to ensure that accurate records of all communications and transactions that occur on the adviceDirect platform are kept to ensure that a compliance review can be conducted.

Stage 4

- (k) Final review and approval: Each completed application is reviewed by the adviceDirect Supervisor in accordance with BMO adviceDirect written policies and procedures and then the approval or denial decision is made. If none of the four investor profiles available under adviceDirect is suitable for the applicant, or if an adviceDirect account is not suitable for the applicant, the application will not be approved. As well, an application will not be approved if the investor profile identified in the application form is not the same as the investor profile recommended for the applicant by the adviceDirect Registered Representative. If an applicant insists on an investor profile that is not suitable for him or her, based on

the adviceDirect Registered Representative's assessment, an adviceDirect account will not be opened for the applicant.

Account supervision, suitability and the role of adviceDirect Registered Representatives

- (14) The Ultimate Designated Person, Chief Compliance Officer and other supervisory registrants of BMO InvestorLine will be accountable for adviceDirect and will be reporting to the BMO InvestorLine Board of Directors on a semi-annual basis.
- (15) Each client's adviceDirect account will be documented and approved in accordance with applicable IIROC rules, other relevant securities legislation and BMO InvestorLine's policies and procedures.
- (16) BMO InvestorLine has written policies and procedures with respect to adviceDirect which set out a level of account supervision that complies with IIROC's rules and is conducted through a combination of proprietary computer systems and dealing representative interaction.
- (17) Once an adviceDirect account has been opened for a client, the client will have his or her account supervised by BMO InvestorLine in the following way:
 - (a) continuous monitoring by adviceDirect to determine whether the overall composition of a client's portfolio continues to be suitable for the client;
 - (b) daily and monthly supervisory activities performed by the applicable adviceDirect Supervisor in accordance with IIROC's rules for two-tier reviews which includes monthly monitoring by adviceDirect Registered Representatives of the client's portfolio and trading activity including the occurrences of suitability alerts generated by adviceDirect;
 - (c) daily and monthly supervisory activities performed by BMO InvestorLine's Compliance Department in accordance with IIROC's rules for two-tier reviews; and
 - (d) at a minimum, an annual review by an adviceDirect Registered Representative.
- (18) Each adviceDirect account is subject to continuous overall portfolio suitability review to ensure the level of risk in the portfolio is suitable for the client and that the portfolio is aligned with the client's investor profile. The suitability assessment of a client's portfolio will be based on three parameters: asset allocation, risk and diversification. For each type of investor profile there are specific thresholds with respect to equities and fixed income which are set out in the investor profile descriptions. The suitability assessment will take into consideration the thresholds for the client's specific investor profile, and the specific holdings in the client's portfolio to determine the suitability of the portfolio in order to make the appropriate recommendations.

- (19) An adviceDirect client can transfer his or her existing securities holdings into the adviceDirect account in which case, these securities will be subject to a suitability assessment by adviceDirect (i.e., if the asset allocation/securities transferred are not suitable based on the recommended investor profile, the suitability escalation process will ensue and the client will be prompted to take remedial action).
- (20) If a client attempts to execute a transaction that is considered by adviceDirect to be unsuitable for the client, a message will be displayed warning the client of the unsuitability of the potential transaction. The client may decide to amend his or her order or continue with the original order after acknowledging having received the warning message.
- (21) A client's KYC information is kept updated through a process of electronic communications and discussions with an adviceDirect registered representative.
- (22) When a client experiences a material change in circumstances, he or she will fill out a material change form with the updated KYC information and provide the form to BMO InvestorLine. Material change forms are reviewed by the adviceDirect Supervisor or an adviceDirect Registered Representative as per the standards for opening a new account. adviceDirect clients will be prompted in various ways to provide updated KYC information. For example, a message to adviceDirect clients will appear at least twice a year on a client's account statement asking if the client's circumstances have changed and telling him or her how to update the information. As well, when a client is contacted directly by an adviceDirect Registered Representative regarding suitability issue with his or her portfolio, the client will be asked to confirm if there are any changes to his or her KYC information. And, as part of the account supervision process, each client will be contacted directly by an adviceDirect Registered Representative on an annual basis at a minimum who will discuss, among other things, whether there have been any changes to the client's KYC information. Additional methods for clients to provide updated KYC information may be added to adviceDirect from time to time.
- (23) An adviceDirect Registered Representative's role in respect of adviceDirect clients includes:
 - (a) account opening review as described above, including making recommendations as to the suitability of the account itself and the investor profile for each adviceDirect client;
 - (b) ongoing account supervision;
 - (c) conducting a suitability assessment for a client when requested by the client; and when required under the adviceDirect suitability alert process;
 - (d) market commentary discussing economic and market updates relevant to a client's portfolio;

- (e) research; and
 - (f) execution of trades.
- (24) The adviceDirect Registered Representatives will be determining the appropriateness of the adviceDirect service and the account types available under adviceDirect at all times including when marketing adviceDirect to prospective new clients.

adviceDirect client disclosure

- (25) In addition to the disclosure of information made during the account opening process as described above, information will also be disclosed to an adviceDirect client after his or her account is approved as follows:
- (a) when the client signs onto his or her adviceDirect account, the information provided to the client includes:
 - Client Agreement (contains disclosure items required by law)
 - 90-day trial period terms and conditions
 - Protecting your privacy (disclosure about BMO's privacy code)
 - Canadian Investor Protection Fund (description of how CIPF operates)
 - adviceDirect fee schedule
 - Investor's guide to making a complaint
 - Opening your retail account (IIROC brochure)
 - Conflicts Disclosure Document
 - About adviceDirect (described in paragraph 26 below);
 - (b) each client may also receive a call once the account is funded; and
 - (c) educational material covering various aspects of adviceDirect will be available to adviceDirect clients.
- (26) Specific information about the availability of continuous suitability monitoring and about the recommendations that an adviceDirect Registered Representative can make under the adviceDirect service are contained in the Client Agreement and in a plain language document called About adviceDirect. Both documents are made available to the client when his or her account is opened and will be available to clients through the adviceDirect website.

adviceDirect investment recommendations

- (27) adviceDirect will generate recommendations about equity and mutual fund investments. An adviceDirect client will also be able to choose from a list of fixed income securities

identified by BMO InvestorLine.

- (28) An adviceDirect client will have access to information about the securities that adviceDirect recommends. The client will be able to access information from MarketGrader (with respect to equities) and Lipper (with respect to mutual funds) that is specific to the security being recommended. In addition, there is a “Research” tab the client can access to obtain a variety of research information from third-party entities including research on a specific security (e.g. research from S&P Research), ratings on securities by various analysts, and general economic research.
- (29) adviceDirect Registered Representatives will be available from 8:00 a.m. to 8:00 p.m. (ET) to discuss recommendations generated by adviceDirect with clients.

Conflicts of interest

- (30) Recommendations provided by adviceDirect are not produced in such a way as to favour related-party securities over third-party securities or to result in increased sales of related party products. There is no bias towards related party securities in any of the investor profiles or asset class mixes. adviceDirect’s recommendations may include a BMO Financial Group product in addition to third-party products.
- (31) Where securities offered by any BMO InvestorLine affiliated entity are recommended, adviceDirect will provide clear and accurate disclosure to clients specifically advising them of this fact. When an adviceDirect client enters an order for a related or connected issuer, there will be a notification directly on the order entry screen itself before the trade is executed, stating that the security is issued by a related or connected issuer of BMO InvestorLine. While no acknowledgement of the notification is required by the client, on the order entry screen, there will be a link to the conflicts of interest disclosure document which the client may access.
- (32) The compensation structure for adviceDirect Registered Representatives is non-commission based and there is no incentive within the compensation structure that encourages the sale of related party securities over the sale of non-related party securities.
- (33) BMO InvestorLine may receive trailer fees in respect of some mutual funds held by a client in an adviceDirect account and therefore, the value of those mutual fund units which pay the trailer fee to BMO InvestorLine will be excluded in calculating the fee payable by a client for his or her adviceDirect account. Since an adviceDirect account is a fee-based account, no commission will be paid to BMO InvestorLine in respect of a trade in mutual fund units by an adviceDirect client.

Further to the representations noted above and following the submission of the exemption applications to IIROC and the OSC, BMO InvestorLine also agreed to the following conditions:

1. The know-your-client and suitability related information communicated in the account opening documentation and the account opening process, as well as the manner in which recommendations and suitability assessments are conducted during the operation of the account must not be amended without prior approval of IIROC staff.
2. All future promotional materials and other documents describing this offering must be consistent with the representations made to date and must be consistent with the updated account opening documentation. Promotional and other documents may not suggest that the offering is a portfolio management approach to investing.
3. The four investor profile models is being permitted, as an alternative to providing customized advice, on the basis that this advice is being provided through a computer generated system. In recognizing the limitations of computer systems generally and their inability to provide client by client customized advice, the use of the four investor profiles is being permitted. This manner of providing advice is not to be applied in other advisory offerings or accounts, absent the granting of specific exemptive relief.
4. Any period of Registered Representative approval associated with BMO InvestorLine will not automatically be considered as qualifying work experience by an individual Registered Representative to satisfy the requirements of Dealer Member Rule 2900 A.6.1 (b) (i.e., to add discretionary portfolio management to the individual's IIROC approval). It would be open for an individual to have his/her experience considered as qualifying experience and IIROC staff would consider those submissions at the time of an application.
5. IIROC's approval of the launch will be subject to BMO InvestorLine obtaining CSA exemptive relief in the applicable CSA jurisdictions in which the adviceDirect offering is made available.
6. BMO InvestorLine will be prohibited from launching until at least 10 calendar days after the IIROC publication of this exemption order.
7. BMO InvestorLine will provide the IIROC Board with a one year compliance assessment report, one year from the date of the launch, outlining any system integrity and compliance deficiency related issues identified and any steps taken to address those issues, as well as any other information requested by IIROC staff including details relating to all suitability alerts subject to the escalation process, product related suitability issues, order type related suitability issues, unreasonable recommendations generated by the adviceDirect system, system failures, integrity of the information provided by the third party vendors, order control issues including market volatility control issues, and compliance deficiencies identified by internal and external auditors or ARC.

The IIROC Board has considered the application submitted, along with the above noted conditions, carefully and determined that exercising its discretion in granting the exemption would not be prejudicial to the interests of the Dealer Members, their clients or the public,

provided that BMO InvestorLine complies with all of the conditions set out above and subject to the provisos set out below in this exemption order.

In reviewing the application, the IIROC Board, among other things, considered the recommendation submitted by IIROC staff which discussed the option of not supporting the exemption application and, instead proceeding by way of rule amendments that would allow for an online advisory platform similar to the one proposed by BMO InvestorLine. The IIROC Board agreed with staff's position that it would be difficult to propose rule amendments that would allow a new type of account offering without first understanding the full implications of such an offering; rule provisions may be necessary in order to address issues experienced by clients through the use of an online offering and at this time, it is unknown what those experiences will be. Furthermore, it is unknown whether there will be demand for the exact or similar type of online account offering proposed by BMO InvestorLine within the Canadian market and whether other Dealer Members will want to offer the same or a similar type of account offering, thereby justifying rule amendments. Accordingly, the IIROC Board agreed that this type of offering can be allowed through an exemption order, which may be followed by rule amendments once more information is available regarding the impact of such an online advisory account offering. Allowing a new account offering through an exemption order, followed by rule amendments, is similar to the approach that was used by discount brokerage firms when they sought the ability to offer "suitability exempt accounts".

As such, the IIROC Board agreed to grant the exemption subject to the following provisos:

1. The Board of Directors reserves the right to revoke the exemption order, at any time upon notice to BMO InvestorLine.
2. The exemption order is void on the date of the implementation of any rules by IIROC or the provincial securities commissions relating to the type of offering that will be available through adviceDirect. IIROC, and not BMO InvestorLine, will determine whether any rules implemented are considered to be related to BMO InvestorLine's account offering and therefore, rendering the exemption as void.
3. BMO InvestorLine is allowed to continue to operate its order execution only service business along with the new offering, an advisory service business, provided that they operate within separate business units and comply with all of the provisions of the exemption order.

Dated this 7th day of August, 2012



Gerry Rocchi, Chair