

Chapter 13

SRO Notices and Disciplinary Proceedings

13.1.1 Establishment and Amendment of IDA Rules to Implement the Core Principles of the Client Relationship Model

INVESTMENT DEALERS ASSOCIATION OF CANADA - ESTABLISHMENT AND AMENDMENT OF IDA RULES TO IMPLEMENT THE CORE PRINCIPLES OF THE CLIENT RELATIONSHIP MODEL

I OVERVIEW

These rule proposals seek to implement the core principles of the Client Relationship Model (CRM), a model outlined in the Fair Dealing Model concept paper issued by the Ontario Securities Commission (OSC) in January 2004. The CRM core principles are:

- clarity and transparency of the account relationship entered into between the client, the adviser and the dealer;
- transparency of the account costs to be borne by the client;
- transparency of conflicts that the adviser and the dealer must manage in order to put the client's interests first;
- transparency of account performance and the risks borne to achieve that performance; and
- client communication should be in plain understandable language.

A CURRENT RULES

There are a number of current IDA rules that relate to the CRM core principles. Specifically, the types of account relationships that may be offered to clients and the obligations of Members and advisers under each account type are generally well articulated in the current IDA rules. However, there are no current rules that mandate that clients be informed of the essential features of the account relationship they've entered into and the account performance / risk they are receiving / incurring.

B THE ISSUE

The concern with the current rules is that they focus more on regulating the activities of the adviser and the Member than on setting account relationship and service disclosure standards to be met by the advisor and the Member in communicating with their retail clients. As a result, the current account agreements and account opening documents tend to focus on the rights of the parties under the account agreement rather than describing the account relationship that has been entered into and the services that are to be provided. Disclosure of the details of the account relationship and the services to be provided are necessary to better inform the client of the nature of their account relationship as well as equip them to monitor whether their account performance is satisfactory (in relation to the risks they are assuming).

C OBJECTIVE

The rule proposals relate to:

- Relationship disclosure [new requirements]
- Account cost disclosure [revised requirements]
- Conflicts resolution / disclosure [revised requirements]
- Retail client suitability [revised requirements]
- Account performance reporting [new requirements]

Relationship disclosure

The objective of the relationship disclosure rule proposals is to better inform the retail client about the following aspects of their account relationship:

- The products and services offered by the Member;
- The type of account relationship they have entered into;
- The roles and responsibilities of the Member and, where applicable, the adviser / portfolio manager and the client; and
- The disclosures the client will be provided up-front, at time of transaction and on an ongoing basis.

As the relationship the client enters into varies with the type of account, the rule proposals have been developed to set out the different minimum information disclosure requirements that apply to: (1) advisory accounts, (2) order-execution service accounts and (3) managed accounts.

Account cost disclosure

The objective of the account cost disclosure rule proposals is to better inform the retail client at time of account opening about the:

- account service fees and charges the client will or may incur relating to the general operation of their account; and
- costs the client will or may incur in making and holding investments by type of investment product.

The rule proposals would require that this information be included as part of the relationship disclosure information that is to be provided to the client at time of account opening.

Conflicts resolution / disclosure

The objective of the conflicts resolution / disclosure rule proposals is to establish a general standard to be followed in either resolving or disclosing Member and adviser conflict of interest situations. The proposal wording is based on the existing wording of MFDA Rule 2.1.4 and Section 6.1 of proposed National Instrument 31-103, Registration Requirements.

Retail client suitability

The objective of the retail client suitability rule proposals is to better inform the retail client of the Member's minimum obligations to assess individual investment and investment portfolio suitability. The amendments seek to provide clients with enough information to enable them to answer the following questions about their account:

- How is my investment risk tolerance level determined?
- What is my investment risk tolerance level?
- What are the adviser's / Member's obligations to assess suitability?
- Is the level of investment risk in my account in line with my investment risk tolerance level?

Account performance reporting

The objective of the account performance reporting amendments is to better inform the retail client about their account performance. The amendments seek to provide clients with enough information to enable them to answer the following questions about their account:

- Are my current account holdings making money?
- Has my account made money over time?
- Are the account returns satisfactory in relation to the investment risk I have assumed?

D EFFECT OF PROPOSED RULES

The intended effect of the proposed policies is to establish minimum standards for relationship disclosure [new requirements], account cost disclosure [revised requirements], conflicts resolution / disclosure [revised requirements], retail client suitability [revised requirements] and account performance reporting [new requirements].

II DETAILED ANALYSIS

A CURRENT RULES, RELEVANT HISTORY AND PROPOSED POLICY

Current rules

There are a number of current IDA rules that relate to the CRM core principles as follows:

CRM core principle	Current IDA rules
Account relationship transparency	<p>IDA Regulation 1300 and Policy No. 9 set out the regulatory structure for advisory accounts, order-execution service accounts and managed accounts.</p> <p>So, while the account types are described in the rules, there are no current requirements for the Member to describe to the client the type of account relationship they've entered into.</p>
Account costs transparency	<p>IDA By-law No. 29.8 prohibits the Member from deducting fees or costs from a client account unless the client was informed of such charges at the time of account opening or 60 days in advance in the case of a change in the charge.</p>
Conflicts transparency	<p>IDA By-law No. 29.1 sets out general conduct rules that apply to the Member and its advisers. IDA Policy No. 2 requires that the branch manager perform a daily transaction review to detect client / adviser conflicts of interest. Requirements 1 and 2(a) of IDA Policy No. 11 require each Member to have conflict of interest procedures designed to minimize conflicts faced by analysts and Member and analyst conflicts disclosure requirements.</p> <p>So, while there are specific conflicts related requirements, there is no current general requirement to disclose Member and advisor conflict of interest situations to the client as part of an account opening document.</p>
Account performance and risk transparency	<p>IDA Regulation 200.1 requires that clients be provided with security position market value information as part of their account statement. There is no current requirement to provide security position cost (other than at time of trade), account activity or percentage return information to the client.</p> <p>IDA Regulations 1300.1(q) and (r) require that orders accepted from a client and orders recommended to the client be suitable for the client. Part of the suitability determination is comparing the risk of investment product to the client's risk tolerance. There is no requirement to provide investment risk information to the client.</p>
Plain language	<p>No specific requirements.</p>

However, there are no current rules that mandate that clients be informed of the essential features of the account relationship they've entered into and the account performance / risk they are receiving / incurring.

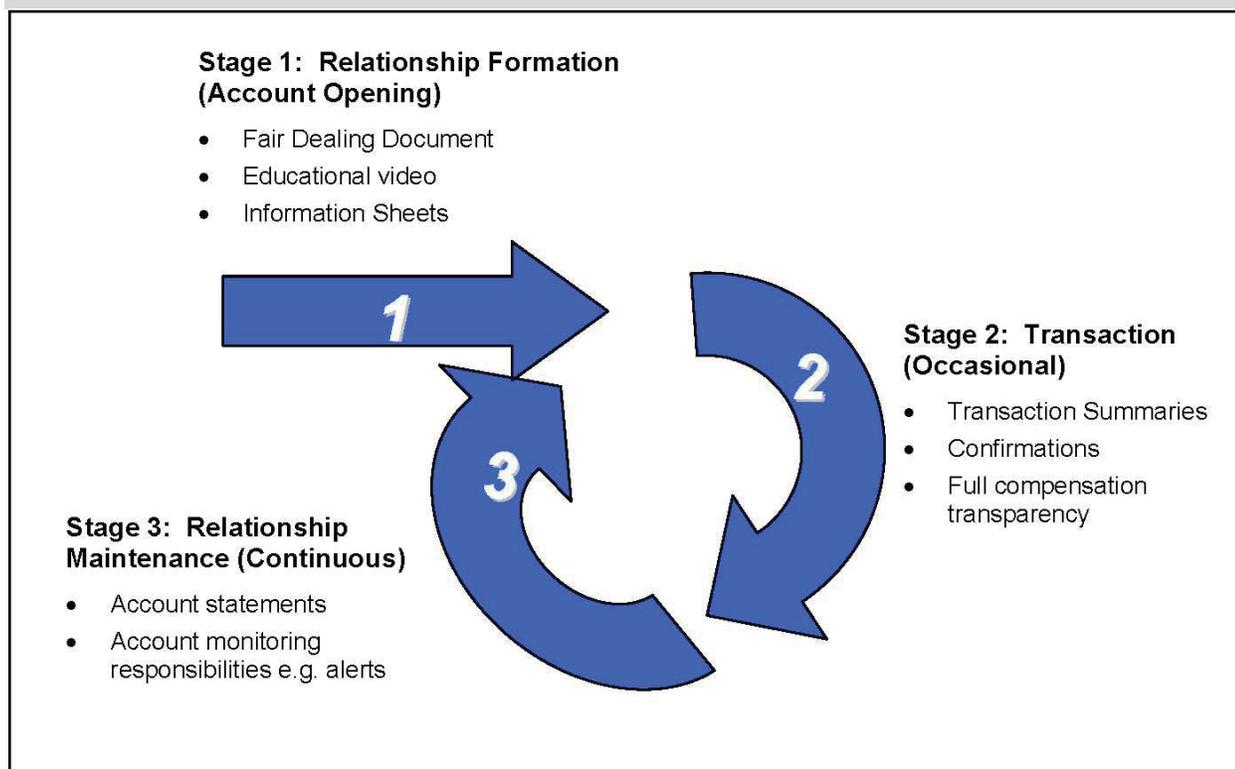
Relevant history

The Ontario Securities Commission (OSC) established the OSC Fair Dealing Model Committee (OSC Committee) in February 2000. This committee proposed that changes be made to the client / advisor relationship through adoption of the Fair Dealing Model (FDM). The main FDM proposed changes were presented in April and May 2000 at a series of focus group meetings comprised of industry participants with expertise in compliance, marketing, and operations.

FDM Concept Paper

In January 2004, the OSC published the FDM Concept Paper. The concept paper envisioned bringing the regulatory requirements into line with the industry's move to an account advisory model and matching client expectations with the products and services firms provide. The concept paper discussed three stages of the account relationship as follows: (1) relationship formation, (2) transaction, and (3) relationship maintenance. Recommendations, most of which proposed more disclosure, were provided for in the concept paper for each of the account relationship stages as follows:

Tracking the Fair Dealing Model through the three stages of a relationship



The OSC Committee then established six industry working groups, which met in the first half of 2004 to flesh out the rulemaking needed to implement the FDM.

CSA FDM Committee Direction Document Recommendations

In September 2004, the FDM came under the umbrella of the CSA Registration Reform Project (RRP). The objectives of the CSA FDM initiative was to focus on developing rules for the most important of the original OSC Concept Paper recommendations that could be implemented nationally and that would apply to all registrants. It was therefore decided that specific rulemaking recommendations would focus on the following three areas:

1. Account opening documentation;
2. Costs, conflicts and compensation transparency; and
3. Performance reporting.

Three CSA FDM working groups were created to develop rulemaking recommendations for each of these areas. The working group direction documents were finalized and approved by the CSA in May 2005. The SROs were then asked by the CSA to commence drafting the necessary rules to implement the CSA direction document recommendations.

SRO rulemaking efforts

A joint IDA / Mutual Fund Dealers Association (MFDA) rulemaking committee, the SRO Rulemaking Committee was struck in June 2005. To enable an initial dealer review of the rulemaking proposals, three joint IDA/MFDA industry subcommittees were established as follows:

1. Compliance Subcommittee;
2. Operations / Technology Subcommittee;
3. Retail Sales Advisors / Managers Subcommittee.

The SRO Rulemaking Committee finalized its initial drafts of proposals relating to account relationship disclosure and performance reporting and risk assessment in May 2006 and July 2006, respectively. The proposals were reviewed and commented on by each of the three industry subcommittees in June 2006 and August 2006, respectively. Further, samples of the proposed new disclosures were reviewed and commented on by the approximately 370 advisors that participated in an 11 city broadcast consultation that was held on August 16, 2006. These initial drafts were also distributed for comment to the IDA Compliance and Legal Section and the IDA Financial Administrators Section in September 2006. Finally, presentations on the contents of these initial drafts were also provided to each of the IDA District Councils in October and November 2006.

In response to the comments received on these initial drafts, IDA and MFDA (SRO) staff met in July 2007 to develop a common set of proposals that was more focused on the CRM core principles and that could be implemented on a timely basis. The next section details the revised proposals that have been developed.

CSA / SRO costs versus benefits analysis efforts

In the fall of 2006, discussions commenced between SRO and OSC staff as to the approaches to be taken in performing costs versus benefits analysis work. To assist in the performance of this work, an independent research company was hired to make recommendations on the investor survey approaches to be used and to perform the surveys themselves.

It was determined that the first set of proposals to be analyzed would be the relationship disclosure proposals. As a result, the initial work of the research company was to develop a recommended approach for surveying investors to assess the potential benefits of the relationship disclosure proposals. The research company initially proposed a telephone survey that would be targeted at the general public as a whole along with a smaller number of face to face meetings with identified SRO clients. The advantage of this approach was that it would allow for quick completion of the survey and analysis of the survey results. The disadvantage of this approach, of not necessarily talking to clients who had recently opened IDA and MFDA dealer offered accounts, was that the results might not demonstrate that the proposed relationship disclosures provide an incremental benefit to clients over existing account opening disclosures. It was therefore decided to target the survey at clients that had recently opened accounts at IDA and MFDA dealers.

In March 2007 an invitation was sent to IDA and MFDA Members inviting their participation in the costs versus benefits survey work. The invitation requested that dealers provide their SRO with names of their new clients in order for a targeted new client survey to be performed. An information session was also held on April 2nd to explain the intended survey work and respond to dealer questions on the survey approach. A further meeting was held on May 16th involving staff from the IDA, IFIC, IIAC, MFDA and the OSC and representatives from certain dealers. The intention of this meeting was to discuss and agree upon a costs versus benefits survey approach to be pursued. No such agreement was reached and therefore no costs versus benefits work has been performed to date.

Proposal details

Relationship disclosure [new requirements]

The SROs are proposing that every dealer will provide its retail clients with the following essential details of the relationship they are entering into with the client:

- A description of the types of products and services offered by the dealer;
- A description of the account relationship to which the client has consented;

- Where applicable, a description of the process used by the adviser / portfolio manager and the Member to assess the client's investment objectives and risk tolerance and a statement that the client will be provided with a copy of the "know your client" information that is obtained from the client and documented at time of account opening and when there are material changes to the information;
- A description of the dealer's minimum obligations to assess investment suitability at the time of a trade, when certain "trigger" events occur (i.e., transfer of account, material change in client circumstances, change in the account advisor) and whether or not the dealer will undertake ongoing suitability monitoring of client holdings;
- A statement indicating Member and adviser conflicts of interest and stating that future conflicts of interest situations, where not resolved, will be disclosed to the client as they arise;
- A description of all fees, charges and costs associated with operating the account and services the dealer will offer to the client;
- A statement identifying when account statements and trade confirmations will be sent to the client;
- A description of the types of account performance information that will be sent to the client (including whether or not percentage return information will be sent) and when the information will be sent;
- A request that the client advise the dealer of material changes in personal circumstances or investment objectives;
- A listing of the account documents required to be provided to the client with respect to the account; and
- A description of the Member's complaint handling procedures and a statement that the client will be provided with a copy of an IDA approved complaint handling process brochure at time of account opening.

Some of these disclosures are already current regulatory requirements. The SROs will not mandate the format of the disclosures, but will require that the disclosures be:

- Provided to the client in writing at the time of account opening;
- Written in plain language; and
- Included in a document entitled "Relationship Disclosure".

Account cost disclosure [revised requirements]

The SROs are also proposing that general fee and cost disclosure will be provided to the client:

- At time of account opening (see relationship disclosure proposals above)¹
- In advance of implementing changes in fees and costs²
- In the case of transaction costs, at time of transaction³

Again, a number of these disclosures are already current requirements.

Conflicts resolution / disclosure [revised requirements]

Both SROs already have conflicts rules. The MFDA's conflicts rule requires that all conflicts be addressed in favour of the client. The IDA is proposing to adopt a similar general rule to clearly state that where conflict situations cannot be avoided, all such conflicts must be resolved in favour of the client.

¹ Disclosure at time of account opening is a current requirement set out in IDA By-law 29.8. Including the disclosure in with the relationship disclosure information will be new.

² Advance disclosure is a current requirement set out in IDA By-law 29.8.

³ Separate projects are underway to enhance the current transaction cost disclosure requirements for mutual fund and debt.

Retail client suitability [revised requirement]

In addition to the current requirement to ensure that all retail client recommended trades are suitable, the SROs are proposing that an account wide suitability review must be performed when certain “trigger” events occur (i.e., transfer of account, material change in client circumstances, change in the account advisor). It is currently an industry best practice to perform suitability assessments on a periodic basis irrespective of the “trigger” events. We will mandate that the dealer must disclose whether or not it undertakes suitability assessments on a periodic basis, and any applicable costs for such services at the time of account opening.

Account performance reporting [new requirement]

The SROs have identified account security position cost disclosure, account activity disclosure and account percentage return disclosure as the three types of performance reporting that we believe will provide the retail client with meaningful account performance feedback:

1. Account security position cost disclosure

The IDA is proposing to mandate that account security position cost information be provided to all retail clients on an annual basis at a minimum. The MFDA is also considering mandating the provision of cost information but must satisfy itself that, particularly for account mutual fund holdings, accurate cost information is readily available to the dealer to disclose. As there are different types of cost information that could be disclosed (i.e., original cost, book or tax cost), the SROs are committed to mandating that the same type of cost information is disclosed by all dealers to their clients in order to ensure comparability and consistency in reporting.

2. Account activity disclosure

The SROs are proposing to mandate that account activity information be provided to all retail clients on an annual basis at a minimum. This reporting would detail the activity in the account that has taken place during the period of the report. In addition, as it is already an industry best practice of those IDA Member firms that currently provide their clients with account activity reporting, the IDA proposals will also require that the client be provided with a cumulative account activity report (commencing on the later of the date of account opening or the date of rule implementation).

3. Account percentage return disclosure

The SROs are not proposing at this time to mandate that account percentage return information be provided to retail clients.

This type of performance reporting would be more onerous to implement at this time due to the need to warehouse a significant amount of account data, covering the entire history of the account, in order to generate accurate percentage return information for a number of different reporting periods (i.e., 1, 3, 5 and 10 years and since account inception). Based on consultations to date, we have also determined that dealers will not be able to make this type of performance reporting available to their clients as quickly as they will be able to make the other types of performance reporting available. As a result, we have decided to move ahead separately with mandating the provision of account position cost and account activity information in order to implement most of the improvements described above as quickly as possible.

However, because we believe that account percentage return information is the most useful type of performance information a client can receive (i.e., it allows for easy comparison of account returns to returns that might have been received from other investments) we will continue to study the cost and implementation issues surrounding percentage return reporting with the objective of requiring that this information be provided to clients as soon as it is feasible to do so. We will continue to work with IDA Member firms in order to understand and address any existing impediments to the provision of this information to retail clients.

In the interim, in order to encourage dealers to provide their clients with percentage information on a voluntary basis, using a common standard from one dealer to the next, the SROs are proposing to mandate that dealers disclose to clients whether or not they will be provided with percentage return information and the cost (if any) to the client of receiving percentage information and we will also mandate the account percentage return calculation and disclosure standards that must be followed by the dealer and the advisor, where they choose to provide percentage return information to retail clients.

B ISSUES AND ALTERNATIVES CONSIDERED**Issues**

Issues have been raised during the course of our rulemaking consultations relating to the development of these policy proposals. The following is a summary of the issues raised (along with IDA staff comments):

Issues raised	IDA staff comments
Relationship disclosure	
There is no identified demand for enhanced disclosure.	A recent survey of 1600 clients that is included in the research study, <i>How Are Investment Decisions Made</i> indicates that a significant number (51% of those surveyed) of Canadian investors do want access to more specific investment information and would be open to getting that information on-line. It is believed that a similar significant number would be interested in receiving more specific account information.
There will be increased compliance costs with the implementation of this disclosure and ongoing maintenance.	Increases in compliance costs have been mitigated as much as possible with the elimination of disclosure requirements that must be customized to the specific situation of each client (other than providing the client with a copy of the documented "know your client" information).
There will be an increase in legal liability resulting from this disclosure.	The essential nature of the liability of the firm and the advisers to deal honestly and in good faith and in the best interests of clients will not change.
Proposed requirements are too prescriptive.	<p>In order to allow a client to compare the account service offerings of more than one Member, the items covered in the relationship disclosure must be prescribed.</p> <p>The number of prescribed items has been reduced under the revised proposal to focus on the CRM core principles.</p> <p>Further, while the disclosure items are prescribed, the form and format of the disclosure has not been prescribed.</p>
Standardization v. customization of relationship disclosure.	<p>The relationship disclosure provided to the client must accurately describe:</p> <ul style="list-style-type: none"> (a) the account relationship the client has entered into with the Member and, where applicable, the adviser / portfolio manager; and (b) the advisory, suitability and performance reporting service levels the client will receive from with the Member and, where applicable, the adviser / portfolio manager. <p>If this can be achieved through standardized relationship disclosure, customization (and the associated costs) will not be a concern.</p>
Retail client suitability	
A periodic suitability review should be performed for those clients that want it but it should not be mandated that the review be performed annually.	Under the revised proposal, the performance of a periodic suitability review is now completely optional. The client will however have to be informed as part of the relationship disclosure whether or not they will receive this review service.

Issues raised	IDA staff comments
<p>The performance of a periodic suitability review should be dictated by changes in client circumstances.</p>	<p>Under the revised proposal, the occurrence of certain events will trigger the need for a suitability review. These events are as follows:</p> <ul style="list-style-type: none"> (a) An account is opened; or (b) An account is received in via transfer; or (c) There is a change in the adviser responsible for the account; or (d) There is a material change in client information for the account. <p>However, these are not the only situations that would lead to the performance of an account suitability review. The risk associated with account positions and the account as a whole can easily change over time such that the account risk can become out of sync with client risk tolerance. This type of situation should also prompt an account suitability review to the extent a periodic suitability review service is offered to the client.</p>
<p>Certain accounts should be exempt from a periodic suitability review requirement.</p>	<p>Under the revised proposal, the performance of a periodic suitability review is now optional.</p>
<p>Account performance reporting</p>	
<p>Account security position cost disclosure</p>	
<p>The disclosure of book cost information is misleading for securities where distributions are reinvested in additional investment shares / units. Original cost should be disclosed rather than book cost.</p>	<p>The original proposal would have required that book cost information be disclosed to clients. It was acknowledged at the time that original cost information more accurately indicated whether an individual security position was profitable or not, but book cost was selected as the basis for cost reporting. This was because book cost was the cost amount that clients use for tax reporting purposes and the potential client confusion over receiving reports with different cost amounts was seen as being a significant concern.</p> <p>The revised proposal not longer specifically refers to the type of cost information to be disclosed as we wish to solicit the views of proposal commenters before making a final decision. The cost disclosure alternatives we are considering are as follows:</p> <ul style="list-style-type: none"> (1) Disclosure of book cost only; (2) Disclosure of original cost only; or (3) Disclosure of both book cost and original cost.
<p>Maintaining accurate book cost information will be a significant challenge.</p>	<p>This is a significant challenge for Member firms that currently provide cost information to their clients and will be a significant challenge with implementing this proposal. Accuracy issues arise from issuer initiated cost adjustments (i.e., return of capital distributions), client initiated cost adjustments (i.e., client override of cost information) and distribution reinvestments that are included in the determination of book cost.</p>

Issues raised	IDA staff comments
It will be difficult to get this information for transferred accounts.	The current automated account transfer system (ATON) does not mandate the exchange of cost information for all account positions being transferred. The proposal therefore permits the use of market value at the transfer date as a proxy for cost. An alternative suggestion was to place the onus on the client to provide the cost information and, if none is provided, leave the cost column(s) blank.
For accounts transferred in, original cost or book cost information should be reported rather than transfer date market value information.	The proposal as drafted allows for the disclosure of either cost or market value information at time of transfer as cost information may be unavailable.
Cost information should be provided on a per unit basis to enable clients to compare cost information to current market prices which are predominantly expressed on a per unit basis.	The proposal has been amended to accommodate per unit reporting.
Providing an account cost report should be optional not mandatory.	We believe that providing all clients with some form of performance reporting should be a minimum industry standard. Providing all retail clients with an account cost report along with market value comparatives will equip clients to determine whether they are making or losing money on an individual investment or on their account as a whole.
Account activity disclosure	
It is better to provide customers with account activity information than the account security position cost information because it informs the client about account performance over a period of time rather than as at a point in time.	We agree but because it is a more sophisticated report, requiring the retention of a significant amount of historical data to produce, there are greater operational challenges to producing account activity information in comparison to account security position cost information. We believe that both reports would be of use to the client.
Account percentage return disclosure	
Most clients do / do not understand rate of return reporting.	<p>We do not agree with this commenter. However, the provision of account percentage return information will not be mandatory under the revised proposals. The client will however have to be informed as part of the relationship disclosure whether or not they will receive this information.</p> <p>Views were split on whether clients will understand account percentage return reporting.</p> <p>We believe, while clients may not understand the calculation methodologies used to calculate rate of return information, that clients do generally understand the meaning of rate of return reporting as similar reporting for deposit and debt instruments (i.e., yield reporting) is commonly provided to retail investors.</p>
Information will allow clients to rate broker performance.	Providing account percentage return reporting to a client will not on its own allow the client to rate broker performance. A full discussion of the report contents with the advisor will better equip the client to rate broker performance and to assess overall satisfaction with the service provided.

Issues raised	IDA staff comments
Information focuses on returns at the exclusion of risk.	It would be extremely difficult to design a report that consistently and accurately assesses whether the return versus risk balance has been properly achieved in each client account. We believe no report can replace regular account and position risk discussions between the client and the advisor.
Information may encourage clients to focus more on short term performance.	Initially, due to the planned future prospective implementation of this proposal, return information will be provided for shorter periods of time, starting with the latest one year account percentage return. This can't be helped unless this rule change is implemented retroactively. We don't believe retroactive implementation is a viable alternative. As time passes account percentage return information will be made available for the most recent 1, 3, 5 and 10 year periods. As a result, in the future once the proposal is fully implemented, we don't believe that the report will encourage clients to focus more on short term performance. We do believe the report will encourage clients to focus on account performance generally.
Greater than annual frequency of reporting should not be mandated.	The proposal would not mandate greater than annual reporting but would allow more frequent reporting if the firm and advisor wished to do so.

C COMPARISON WITH SIMILAR PROVISIONS

United Kingdom

The Financial Services Authority (FSA) Conduct of Business sourcebook (COBS) sets account relationship related disclosure requirements as follows:

- COBS 2.2 - "A firm must provide appropriate information in a comprehensible form to a client about" the firm and the types of products (including specific types of investments and investment strategies) and services offered by the dealer and the costs and associated charges relating to these products and services before these products and services are provided. This disclosure may be provided in a standardized format.
- COBS 8.1 - Requirement to enter into a written basic agreement with a retail client setting out the rights and obligations of both parties.
- COBS 9.6.5R - Clients must be provided with basic advice disclosure information as follows:
 - (1) The name and address of the firm
 - (2) A statement as to whether investment products being offered come from one company, a limited number of companies or the capital markets as a whole
 - (3) A statement that the service being offered is basic on a limited range of investment products
 - (4) A statement that the firm is regulated by the FSA
 - (5) A statement disclosing any product provider loans
 - (6) A description of the complaint handling process and the circumstances under which a client can refer a matter to the Financial Ombudsman Service
 - (7) A description of the circumstances and the extent to the client will be entitled to compensation from the Financial Services Compensation Scheme.
- COBS 16.3 - A periodic statement shall be provided to the client every six months at a minimum (every three months if the client requests) which shall include the following information:

- (1) market value of each position held
- (2) cash balance at the beginning and end of each reporting period
- (3) the performance of the portfolio during the reporting period
- (4) the fees and charges incurred during the reporting period
- (5) a comparison of the performance during the reporting period to a performance benchmark agreed to between the firm and the client
- (6) details of the total amount of dividends, interest and other payments received during the reporting period

United States

Under the *Investment Advisers Act of 1940*, a registered adviser that gives personal advice generally is required to supply each advisory client and prospective advisory client with a copy of part of its registration application (Part II of Form ADV) or a written document, such as a brochure, containing the information required by the form. The adviser has two delivery methods available. The adviser may choose to deliver the document at least 48 hours prior to entering into an investment advisory contract with the client. In the alternative, the adviser may deliver the document at the time of entering into the contract if the client is given a right of termination of five business days. Additionally, the brochure is to be offered to current clients annually. Part II of Form ADV includes the following:

- The approximate percentage of billings from each type of advisory service itemized in the form;
- The types of compensation arrangements used by the adviser, the fee schedule, and how to obtain a refund or end an advisory contract before its expiration;
- The types of clients of the adviser;
- The categories of investments about which the adviser offers advice;
- Methods of security analysis, sources of information, and investment strategies;
- The education and business backgrounds of particular individuals;
- Other business activities of the adviser;
- Other financial industry activities or affiliations (including registration) of the adviser and related persons;
- Participation or interest in client transactions;
- Information on the frequency, level, and triggering factors for account reviews and the nature and frequency of reports to clients on their accounts.

D SYSTEMS IMPACT OF RULE

It is expected that the systems impacts will be the greatest for the relationship disclosure and performance reporting proposals.

Relationship disclosure

Relationship disclosure costs are believed to be directly influenced by two factors:

1. *Relationship disclosure customization* - The more the relationship disclosure must be customized to properly address individual client account details, the greater the initial and ongoing compliance costs. Greater customization will also lead to more frequent revisions to the relationship disclosure to ensure it properly reflects the specific client situation.
2. *Relationship disclosure implementation period for existing accounts* - A longer relationship disclosure implementation period for existing accounts will lessen the costs of initial compliance.

Performance reporting

Performance reporting costs are believed to be directly influenced by two factors:

1. *Report data requirements* - Reports requiring greater amounts of data to prepare will increase costs due to requirement to retain at the ready more historical information.
2. *Report calculation requirements* - Costs increase where a greater number of calculations must be performed to generate the report.

General comments

The costs incurred may also differ from Member to Member as many firms already furnish at least a portion of the information required by the minimum standards. The effect on a particular Member may only be determined once a firm specific assessment has been performed. Firms may take into consideration these variables: level of customization of materials, production of documents including printing and mailing, and imposition of new compliance / supervision rules.

A costs versus benefits study has not been completed for these proposals. There are significant challenges to performing such a study since, while work could be done to measure the implementation and ongoing costs (both in term of systems and compliance) relating to these proposals, the benefits of these proposals that will accrue to retail clients are difficult to quantify.

An appropriately long implementation period will be required in order to make substantial changes to firms' systems, and to ensure future application to all accounts. Nevertheless, the IDA will consult with Members on an implementation schedule.

E BEST INTERESTS OF THE CAPITAL MARKETS

The Board has determined that the proposed rule is in the public interest and is not detrimental to the best interests of the capital markets.

F PUBLIC INTEREST OBJECTIVE

According to the IDA's Order of Recognition as a self-regulatory organization, the IDA shall, where requested, provide in respect of a proposed rule change, "a concise statement of its nature, purposes (having regard to paragraph 13 above) and effects, including possible effects on market structure and competition". The nature and effects of the proposed amendments are described above.

The purposes of the proposal are to:

- Promote the protection of investors, just and equitable principles of trade and high standards of operations, business conduct and ethics; and
- Standardize industry practices where necessary or desirable for investor protection.

The proposal, if mandated nationwide for all registrants, will not permit unfair discrimination among customers, issuers, brokers, dealers, members or others. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

III COMMENTARY

A FILING IN OTHER JURISDICTIONS

These proposed amendments will be filed for approval in Alberta, British Columbia, Ontario and Quebec and will be filed for information in Manitoba, Newfoundland and Labrador, Nova Scotia and Saskatchewan.

B EFFECTIVENESS

It is believed that the proposed policies will be effective in establishing minimum standards for relationship disclosure, at the time of account opening and as needed thereafter, for all retail clients.

C PROCESS

Previous versions of these proposals have been reviewed and commented on by the IDA/MFDA CRM Compliance Subcommittee, the IDA/MFDA CRM Operations / Technology Subcommittee, the IDA/MFDA CRM Retail Sales Advisors / Managers Subcommittee and most of the IDA District Councils. In addition, samples of the proposed new disclosures were reviewed and commented on by the approximately 370 advisors that participated in a 11 city broadcast consultation that was held on August 16, 2006.

These proposals have been circulated to and commented on by the IDA Compliance and Legal Section and the IDA Financial Administrators Section.

IV SOURCES

References

- The Fair Dealing Model, Concept Paper of the Ontario Securities Commission, January 2004
http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part3/cp_33-901_20040129_fdm.pdf
- IDA Regulation 1300 Supervision of Accounts
<http://ida.knotia.ca/Knowledge/View/Document.cfm?Ktype=445&linkType=toc&dbID=210711341&tocID=611>
- IDA Policy No. 2 Minimum Standards for Retail Account Supervision
<http://ida.knotia.ca/Knowledge/View/Document.cfm?Ktype=445&linkType=toc&dbID=210711341&tocID=733>
- IDA Policy No. 9 Minimum Requirements for Members Seeking Approval Under Regulation 1300.1(t) for Suitability for Trades not Recommended by the Member
<http://ida.knotia.ca/Knowledge/View/Document.cfm?Ktype=445&linkType=toc&dbID=210711341&tocID=794>
- MFDA Rule 2.1.4, Conflicts of Interest
<http://www.mfda.ca/regulation/rules/RulesJul-03-07.pdf>
- Proposed National Instrument 31-103, Registration Requirements, Section 6.1, Conflicts Management Obligations
http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part3/rule_20070220_31-103_pro-ni-reg-require.pdf
- Research Study, *How Are Investment Decisions Made?*, by Richard Deaves, Catherine Dine, and William Horton, Commissioned by the Task Force to Modernize Securities Legislation in Canada, May 24, 2006, Volume 2, page 239
http://www.tfmsl.ca/docs/Volume2_en.pdf
- United Kingdom Financial Services Authority "Understanding the basics of the new Conduct of Business sourcebook (COBS) for retail markets"
http://www.fsa.gov.uk/pubs/policy/key_markets.pdf
- United Kingdom Financial Services Authority, Conduct of Business sourcebook (COBS)
<http://fsahandbook.info/FSA/handbook/COBS.pdf>
- United States Investment Advisors Act of 1940
<http://www.sec.gov/rules/extra/ia1940.htm>

V REQUIREMENT TO PUBLISH FOR COMMENT

The IDA proposes to publish for comment the accompanying proposed amendments. The Association has determined that the proposed amendments are in the public interest. Comments are sought on the proposed amendments. Comments should be made in writing. One copy of each comment letter should be delivered within 60 days of the publication of this notice, addressed to the attention of Richard J. Corner, Vice President, Regulatory Policy, Investment Dealers Association of Canada, Suite 1600, 121 King Street West, Toronto, Ontario, M5H 3T9 and one copy addressed to the attention of the Manager of Market Regulation, Ontario Securities Commission, 20 Queen Street West, 19th Floor, Box 55, Toronto, Ontario, M5H 3S8.

As part of any comment submission, we would appreciate it if you could indicate (with respect to proposed IDA Regulation 200.1(d) and Guide to Interpretation of Regulation 200.1(d)) which of the following individual security position cost disclosure alternatives you prefer and why:

- (1) Disclosure of book cost only;

SRO Notices and Disciplinary Proceedings

- (2) Disclosure of original cost only; or
- (3) Disclosure of both book cost and original cost.

Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the IDA website (www.ida.ca) under the heading "Rule Book & Bulletins" and sub-heading "Regulatory Policy Proposals and Comment Letters Received").

Questions may be referred to:

Richard J. Corner
Vice President, Regulatory Policy
Investment Dealers Association of Canada
416.943.6908
rcorner@ida.ca

BOARD RESOLUTION - RELATIONSHIP DISCLOSURE

INVESTMENT DEALERS ASSOCIATION OF CANADA
RULE XX00 - RELATIONSHIP DISCLOSURE FOR ACCOUNTS OPENED BY RETAIL CLIENTS

BOARD RESOLUTION

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. A new rule⁴ detailing retail client relationship disclosure requirements is enacted as follows:

“RULE XX00

RELATIONSHIP DISCLOSURE FOR ACCOUNTS OPENED BY RETAIL CLIENTS

XX01. Objective of relationship disclosure requirements

- (1) This Rule establishes the minimum industry standards for relationship disclosure to retail clients at the time of opening an account or accounts. Relationship disclosure is a written communication from the Member and, where applicable, the adviser / portfolio manager to the client describing:
 - the products and services offered by the Member;
 - the nature of the account and the manner in which the account will operate;
 - the responsibilities of the Member and, where applicable, the adviser / portfolio manager to the client; and
 - the recommended steps to be taken by the client to maintain a successful relationship with the Member and, where applicable, the adviser / portfolio manager.

This Rule should be reviewed in conjunction with:

- Regulation 1300.2 - Know your client, suitability and supervision;
- Regulations 1300.3 to 1300.21 - Discretionary and managed accounts;
- Policy No. 2 - Minimum standards for retail account supervision; and
- Policy No. 9 - Minimum requirements for Members seeking approval under Regulation 1300.1(s) for suitability relief for trades not recommended by the Member.

XX02. Definition of account relationship types

- (1) An “advisory account” is an account where the client is responsible for investment decisions but is able to rely on advice given by the adviser. The adviser is responsible for the advice given. In providing this advice, the adviser must meet an appropriate standard of care, provide suitable investment recommendations and provide unbiased investment advice.
- (2) An “order-execution service account” is an account opened in accordance with “order-execution service” requirements set out in Policy No. 9.
- (3) A “managed account” is an account as defined in Regulation 1300.3.

XX03. Form of relationship disclosure

- (1) Members have the choice of providing customized relationship disclosure to each client, or appropriate standardized relationship disclosure to separate classes of clients.

⁴ The IDA is in the midst of a project to rewrite its Rule Book. As part of this project, IDA requirements currently referred to as by-laws, regulations, policies and forms are being rewritten as rules, policies and guidance notes. This proposal has been drafted using the new Rule Book format. Should these proposals be made effective prior to the implementation of the new Rule Book format, the rule and the guidance note being proposed will be implemented on an interim basis as a regulation and a member regulation notice, respectively.

- (2) Where standardized relationship disclosure is provided to the client the Member must determine that the disclosure is appropriate for the client. Specifically, the disclosure must accurately describe:
 - (a) the account relationship the client has entered into with the Member and, where applicable, the adviser / portfolio manager; and
 - (b) the advisory, suitability and performance reporting service levels the client will receive from with the Member and, where applicable, the adviser / portfolio manager.
- (3) Where a client has more than one account, a combined relationship disclosure document may be provided as long as the Member determines that the combined disclosure is appropriate for the client.

XX04. Format of relationship disclosure

- (1) The format of the relationship disclosure is not prescribed but:
 - (a) The relationship disclosure must be provided to the client in writing;
 - (b) The relationship disclosure must be written in plain language; and
 - (c) The relationship disclosure must include all the required content set out in Section XX05 below;
- (2) Members may choose to provide the disclosure as a separate document or to integrate it with other account openings materials.

XX05. Content of relationship disclosure

- (1) The relationship disclosure document must be entitled "Relationship Disclosure".
- (2) The relationship disclosure document requirements vary by type of account relationship and are as follows:

	Advisory account	Order-execution service account	Managed account
(a) A description of the products and services offered by the Member;	Required	Required	Required
(b) A description of the account relationship;	Required	Required	Required
(c) Where applicable, a description of the process used by the adviser / portfolio manager and the Member to assess the client's investment objectives and risk tolerance and a statement that the client will be provided with a copy of the "know your client" information that is obtained from the client and documented at time of account opening and when there are material changes to the information;	Required	Not applicable provided disclosure is made in compliance with the requirements in Policy No. 9.	Required

	Advisory account	Order-execution service account	Managed account
<p>(d) A description of the Member's minimum obligations to assess the investment suitability:</p> <p>(i) Prior to recommending an investment to the client; and</p> <p>(ii) When one or more of the following trigger events occurs:</p> <p>(A) An account is opened; or</p> <p>(B) An account is received in via transfer; or</p> <p>(C) There is a change in the adviser responsible for the account; or</p> <p>(D) There is a material change in client information for the account;</p>	Required	Not applicable provided disclosure is made in compliance with the requirements in Policy No. 9.	Required
<p>(e) A statement indicating whether or not ongoing monitoring of the suitability of the investments held in the account will be an option available to the client as part of the account service offering and, if so, the annual cost of such service;</p>	Required	Not applicable provided disclosure is made in compliance with the requirements in Policy No. 9.	Required, but disclosure will state that ongoing suitability is provided as part of the managed account services
<p>(f) A statement indicating Member and adviser conflicts of interest and stating that future conflicts of interest situations, where not resolved, will be disclosed to the client as they arise;</p>	Required	Required	Required
<p>(g) A description of all account service fees and charges the client will or may incur relating to the general operation of the account;</p>	Required	Required	Required
<p>(h) A description of all costs the client will or may incur in making and holding investments by type of investment product;</p>	Required	Required	Required
<p>(i) A statement indicating when trade confirmations and account statements will be sent to the client;</p>	Required	Required	Required

	Advisory account	Order-execution service account	Managed account
(j) A description of the Member's minimum obligations to provide performance information to the client and a statement indicating when account position cost and account activity information will be provided to the client;	Required	Required	Required
(k) A statement indicating whether or not the provision of account percentage return information will be an option available to the client as part of the account service offering and, if so, the annual cost of such service;	Required	Required	Required
(l) A listing of the account documents required to be provided to the client with respect to the account;	Required	Required	Required
(m) A description of the Member's complaint handling procedures and a statement that the client will be provided with a copy of an IDA approved complaint handling process brochure at time of account opening.	Required	Required	Required

- (3) The relationship disclosure document may include the following recommended steps to be taken by the client to maintain a successful relationship with the Member and, where applicable, the adviser / portfolio manager:
- (a) Carefully and promptly review all documentation provided by the Member and, where applicable, the adviser / portfolio manager relating to the operation of your account, account investment recommendations, account investment transactions and account investment holdings. Documentation to be reviewed includes:
 - (i) The "know your client" information maintained by the Member for your account;
 - (ii) Member and, where applicable, the adviser / portfolio manager conflicts of interest disclosures;
 - (iii) Descriptions of all transaction costs and account service fees and charges relating to the account.
 - (iv) Trade confirmations;
 - (v) Account statements;
 - (vi) Account performance reports;
 - (b) In either an advisory account or managed account relationship, promptly inform the Member of changes to the client's life circumstances or objectives that may materially affect the accuracy of the "know your client" information maintained by the Member for your account.
 - (c) Promptly inform the Member of any trade confirmation, account statement or account performance report errors.
 - (d) In either an advisory account or managed account relationship, proactively ask questions and request information from the adviser / portfolio manager to resolve any questions about

the operation of your account, account investment recommendations, account investment transactions and account investment holdings.

- (e) Contact the Member immediately if unsatisfied with the handling of the affairs in your account.

XX06. Review of relationship disclosure materials

- (1) Pursuant to Regulation 1300.2, the relationship disclosure provided to the client must be approved by a partner, director, officer or branch manager. This approval must occur regardless of the form the relationship disclosure takes. If the document is a standardized document, the document must be approved by head office and the branch manager or supervisor who approves new accounts must ensure that the correct document is used in each client circumstance. If the relationship disclosure is a customized document for each client, the branch manager must approve each document.

XX07. Client acknowledgement of receipt of relationship disclosure

- (1) The Member must maintain an audit trail to evidence that the information has been provided to the client. A client signature acknowledging receipt is preferred, but not required. If no signature is obtained, some other method of documenting the provision of the information to the client must be used.”

BE IT RESOLVED THAT the Board of Directors adopt, on this 30th day of January 2008, the English and French versions of these amendments. The Board of Directors also authorizes the Association Staff to make the minor changes that shall be required from time to time by the securities administrators with jurisdiction. These amendments shall take effect on the date determined by the Association Staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA
RULE XX00 - RELATIONSHIP DISCLOSURE FOR ACCOUNTS OPENED BY RETAIL CLIENTS

BLACK-LINE COPY

Note: Proposed IDA Rule XX00 detailing retail client relationship disclosure requirements will be entirely new, so a black-line copy of these amendments is unnecessary.

BOARD RESOLUTION - CONFLICTS RESOLUTION / DISCLOSURE

INVESTMENT DEALERS ASSOCIATION OF CANADA
RULE XX00 – CONFLICTS RESOLUTION / DISCLOSURE

BOARD RESOLUTION

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. A new rule⁵ detailing conflicts of interest resolution and disclosure requirements is enacted as follows:

“RULE XX00

CONFLICTS OF INTEREST RESOLUTION AND DISCLOSURE REQUIREMENTS

XX01. Responsibility to identify conflict of interest situations

- (1) Each Member and, where applicable, Approved Person shall be aware of the possible conflicts of interest between the interests of the Member or advisor or portfolio manager and the interests of the client.
- (2) Where an Approved Person becomes aware of an existing or potential conflict of interest, the existing or potential conflict shall be reported immediately to the Member.

XX02. Conflicts of interest resolution

- (1) Where possible, conflict of interest situations should be avoided.
- (2) Where a conflict of interest situation cannot be avoided, the Member and, where applicable, the Approved Person shall resolve the existing or potential conflict of interest situation:
 - (a) in a fair, equitable and transparent manner, and
 - (b) by exercising responsible business judgment influenced only by the best interest of the client or clients

XX03. Conflicts of interest disclosure

- (1) Existing and potential conflict of interest situations, when there is reasonable likelihood that the client would consider the situation important, shall be disclosed to the client:
 - (a) for new clients, prior to opening an account for the client; and
 - (b) for existing clients, either as they occur or, in the case of transaction related conflicts of interest, prior to entering into the transaction with the client.

XX04. Conflicts of interest policies and procedures

- (1) Each Member shall develop and maintain written policies and procedures to identify, resolve and, where important, disclose conflict of interest situations.

BE IT RESOLVED THAT the Board of Directors adopt, on this 30th day of January 2008, the English and French versions of these amendments. The Board of Directors also authorizes the Association Staff to make the minor changes that shall be required from time to time by the securities administrators with jurisdiction. These amendments shall take effect on the date determined by the Association Staff.

⁵ The IDA is in the midst of a project to rewrite its Rule Book. As part of this project, IDA requirements currently referred to as by-laws, regulations, policies and forms are being rewritten as rules, policies and guidance notes. This proposal has been drafted using the new Rule Book format. Should these proposals be made effective prior to the implementation of the new Rule Book format, the rule and the guidance note being proposed will be implemented on an interim basis as a regulation and a member regulation notice, respectively.

INVESTMENT DEALERS ASSOCIATION OF CANADA
RULE XX00 – CONFLICTS RESOLUTION / DISCLOSURE

BLACK-LINE COPY

Note: Proposed IDA Rule XX00 detailing conflicts of interest resolution and disclosure requirements will be entirely new, so a black-line copy of these amendments is unnecessary.

BOARD RESOLUTION - RETAIL CLIENT SUITABILITY

INVESTMENT DEALERS ASSOCIATION OF CANADA
REGULATION 1300.1 - RETAIL CLIENT SUITABILITY

BOARD RESOLUTION

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. Regulation 1300.1(p) is repealed and replaced as follows:

“Suitability determination required when accepting order

- (p) Subject to Regulations 1300.1(s) and 1300.1(t), each Member shall use due diligence to ensure that the acceptance of any order from a client is suitable for such client based on factors including the client’s financial situation, investment knowledge, investment objectives and risk tolerance.”

2. Regulation 1300.1 is amended by renumbering existing Regulations 1300.1(r) through (t) as Regulations 1300.1(s) through (u).

3. Regulation 1300.1 is amended by adding new Regulation 1300.1(r) as follows:

“Suitability determination required for account positions held when certain events occur

- (r) Each Member shall, subject to Regulations 1300.1(s) and 1300.1(t), use due diligence to ensure that the positions held in a client’s account or accounts are suitable for such client based on factors including the client’s financial situation, investment knowledge, investment objectives and risk tolerance when one or more of the following trigger events occurs:

- (i) The client is new to the Member and a new account is opened or received in via transfer; or
- (ii) There is a change in the adviser / portfolio manager responsible for the account; or
- (iii) There is has been a material change to the client’s life circumstances or objectives that has results in revisions the client’s “know your client” information as maintained by the Member.”

4. Regulation 1300.1 is amended by repealing and replacing the references to other regulations in new Regulations 1300.1(s) and 1300.1(t) as follows:

- (a) References to existing Regulation 1300.1(t) are repealed and replaced by references to new Regulation 1300.1(u); and
- (b) References to existing Regulation 1300.1(p) are repealed and replaced by references to new Regulations 1300.1(p) and 1300.1(r).

BE IT RESOLVED THAT the Board of Directors adopt, on this 30th day of January 2008, the English and French versions of these amendments. The Board of Directors also authorizes the Association Staff to make the minor changes that shall be required from time to time by the securities administrators with jurisdiction. These amendments shall take effect on the date determined by the Association Staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA
REGULATION 1300.1 - RETAIL CLIENT SUITABILITY

BLACK-LINE COPY

Suitability Determination required when accepting order

- (p) Subject to Regulations 1300.1(s) and 1300.1(t), each Member shall use due diligence to ensure that the acceptance of any order from a client is suitable for such client based on factors including the client's financial situation, investment knowledge, investment objectives and risk tolerance.

Suitability Determination Required When Recommendation Provided

- (q) Each Member, when recommending to a customer the purchase, sale, exchange or holding of any security, shall use due diligence to ensure that the recommendation is suitable for such customer based on factors including the customer's financial situation, investment knowledge, investment objectives and risk tolerance.

Suitability determination required for account positions held when certain events occur

- (r) Each Member shall, subject to Regulations 1300.1(s) and 1300.1(t), use due diligence to ensure that the positions held in a client's account or accounts are suitable for such client based on factors including the client's financial situation, investment knowledge, investment objectives and risk tolerance when one or more of the following trigger events occurs:
- (i) The client is new to the Member and a new account is opened or received in via transfer; or
 - (ii) There is a change in the adviser / portfolio manager responsible for the account; or
 - (iii) There is has been a material change to the client's life circumstances or objectives that has results in revisions the client's "know your client" information as maintained by the Member.

Suitability Determination Not Required

- (rs) Each Member that has applied for and received approval from the Association pursuant to Regulation 1300.1(tu), is not required to comply with Regulations 1300.1(p) and 1300.1(r), when accepting orders from a customer where no recommendation is provided, to make a determination that the order is suitable for such customer.
- (st) Each Member that executes a trade on the instructions of another Member, portfolio manager, investment counsel, limited market dealer, bank, trust company or insurer, pursuant to Section I.B (3) of Policy No. 4 is not required to comply with Regulations 1300.1(p) and 1300.1(r).

Association Approval

- (tu) The Association, in its discretion, shall only grant such approval where the Association is satisfied that the Member will comply with the policies and procedures outlined in Policy No. 9. The application for approval shall be accompanied by a copy of the policies and procedures of the Member. Following such approval, any material changes in the policies and procedures of the Member shall promptly be submitted to the Association.

BOARD RESOLUTION - ACCOUNT PERFORMANCE REPORTING

INVESTMENT DEALERS ASSOCIATION OF CANADA
REGULATION 200.1 - ACCOUNT PERFORMANCE REPORTING

BOARD RESOLUTION

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. Regulation 200.1 is amended by renumbering existing sections 200.1(d) through (n) as Regulations 200.1(g) through (q).
2. Regulation 200.1 is amended by adding new Regulation 200.1(d) as follows:

“(d) Customer account cost reports for all accounts other than those held by institutional customers, itemizing security position cost information as follows:

(1) For all new security positions added to the account on or after the latest of:

- (i) [Date of implementation];
- (ii) The date the account was opened;
- (iii) If applicable, the date the account was received in by the Member firm as a transferred account;

the [●] cost of the position.

(2) For all existing security positions in the account as of [Date of implementation], the [●] cost of the position.

Where [] information is unavailable, Member firm's may elect to provide market value information as at [Date of implementation], or as at an earlier date (referred to as “point in time market value”) instead of [●] cost information, provided that it is done for all accounts and as at the same date.

Where the account was received in by the Member firm as a transferred account, the market value of the positions as at the date the account was received in via transfer (also referred to as “point in time market value”) may be used instead of [●] cost.

For each security position, the current market value as at the report date shall be provided as a comparison to the cost information. The basis for costing each position (either [●] cost or point in time market value) must be disclosed.

Customer account cost reports shall be sent to customers annually, at a minimum.”

3. Regulation 200.1 is amended by adding new Regulation 200.1(e) as follows:

“(e) Customer account performance reports for all accounts other than those held by institutional customers, itemizing cumulative account performance information.

Cumulative account performance information

Cumulative account performance information to be provided includes:

- (1) *Account cumulative deposits*
- (2) *Account cumulative withdrawals*
- (3) *Account cumulative net investment*
- (4) *Account cumulative income and capital gains realized*
- (5) *Account book value, determined as the net sum of the account security position cost amounts plus/minus any account money credits/debits. The cost amounts used in the calculation of account book*

value must be determined in a manner consistent with the customer account cost report requirements set out in Regulation 200.1(d).

- (6) *Account market value*, determined as the net sum of the account security position market value amounts plus/minus any account money credits/debits.

The information shall be provided in a format which will enable the customer to determine: (i) whether or not the account market value exceeds the account cumulative net investment amount, a measure of account performance over time; and (ii) whether or not the account market value exceeds the account book value amount, a measure of current unrealized account gains/losses.

A report containing cumulative account performance information shall be sent to customers annually, at a minimum.

4. Regulation 200.1 is amended by adding new Regulation 200.1(f) as follows:

- “(f) Customer account performance reports for all accounts other than those held by institutional customers, itemizing account annualized compound percentage returns.

Account annualized compound percentage return information

Where account annualized compound percentage return information is provided to the client, it shall be provided indicating the account’s performance for the past ten, five, three and one year periods. Where the account has existed for more than one and less than ten years, the account’s annualized compound percentage return since inception shall be provided. Where the account has existed for less than one year, account annualized compound percentage return information shall not be provided. The computational method used in determining annualized compound percentage return information shall be a method permitted by the CFA Institute as set out in its Global Investment Performance Standards.

A report containing account annualized compound percentage return information shall be sent to customers annually, at a minimum.”

5. The Guide to Interpretation of Regulation 200.1 is amended by renumbering guide items (d) through (n) as guide items (g) through (q)
6. The Guide to Interpretation of Regulation 200.1 is amended by adding new guide item (d) as follows:

- “(d) **“Customer account cost reports”**

Reports must include all customer account security positions held by the Member firm for the customer in nominee name or physically in client name and all customer account security positions for which the Member firm continues to receive compensation, subject to the exceptions below.

Where, pursuant to Regulation 200.1(d)(2), the [●] cost information is unavailable and the point in time market value amount is not readily determinable for an individual security position held, cost information for the security position shall not be reported.

Where, a particular long security position held has been determined to be not readily marketable, current market value information for the security position shall not be reported. In such instance, a disclosure in the customer account cost report shall inform the customer that the information has not been reported and why the information has not been reported.

The information provided in the customer account cost report may be provided to the customer on either a dollar amount or dollar amount per share basis.

The customer account cost report may be provided to the customer as part of the customer account statement, referred to in Regulation 100.2(c), or separately.”

7. The Guide to Interpretation of Regulation 200.1 is amended by adding new guide item (e) as follows:

“(e) **“Cumulative account performance information”**

Cumulative account performance information must be determined based on all customer account security positions held by the Member firm for the customer in nominee name or physically in client name and all customer account security positions for which the Member firm continues to receive compensation, subject to the exceptions below.

Where, pursuant to Regulation 200.1(d)(2), the [] information is unavailable and the point in time market value amount is not readily determinable for an individual security position held, the security position shall not be considered in the determination of cumulative account performance. Where a particular long security position held has been determined to be not readily marketable, the security position shall not be considered in the determination of cumulative account performance. In either such instance, a disclosure in the cumulative account performance information shall inform the customer of the positions that have been excluded and why the positions have been excluded.

Cumulative account performance information may be provided to the customer as part of the customer account statement, referred to in Regulation 100.2(c), or separately.

8. The Guide to Interpretation of Regulation 200.1 is amended by adding new guide item (f) as follows:

“(f) **“Account annualized compound percentage return information”**

Where account annualized compound percentage return information is provided to the client, it must be determined based on all customer account security positions held by the Member firm for the customer in nominee name or physically in client name and all customer account security positions for which the Member firm continues to receive compensation, subject to the exceptions below.

Where, pursuant to Regulation 200.1(d)(2), the [] information is unavailable and the point in time market value amount is not readily determinable for an individual security position held, the security position shall not be considered in the determination of annualized compound percentage return information. Where, a particular long security position held has been determined to be not readily marketable, the security position shall not be considered in the determination of annualized compound percentage return information. In either such instance, a disclosure in the annualized compound percentage return information shall inform the customer of the positions that have been excluded and why the positions have been excluded.

At the option of the Member firm, customers may be provided with portfolio level (portfolio level being a consolidation of all account security positions and debit/credit money balances of the same customer) annualized compound percentage return information.

At the option of the Member firm, customers may instead be provided with annualized compound percentage return information that delineates advised/non-advised account security positions.

Account annualized compound percentage return information may be provided to the customer as part of the customer account statement, referred to in Regulation 100.2(c), or separately.”

BE IT RESOLVED THAT the Board of Directors adopt, on this 30th day of January 2008, the English and French versions of these amendments. The Board of Directors also authorizes the Association Staff to make the minor changes that shall be required from time to time by the securities administrators with jurisdiction. These amendments shall take effect on the date determined by the Association Staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA
REGULATION 200.1 - ACCOUNT PERFORMANCE REPORTING

BLACK-LINE COPY

Note: The proposed amendments IDA Regulation 200.1 detailing account performance reporting requirements will be entirely new, so a black-line copy of these amendments is unnecessary.