

# Relationship Disclosure Information

# CSA Staff Notice 31-334 *CSA Review of Relationship Disclosure Practices*

- Published July 18, 2013
- CSA reviewed the relationship disclosure practices of PMs and EMDs in 2011
- 124 registered firms were sampled
  - 46 sole PMs
  - 26 sole EMDs
  - 52 registered in multiple categories
- Includes changes related to CRM2 requirements
- Use the CSA Staff Notice as guidance

# Relationship disclosure information

Section 14.2 of NI 31-103 requires a registered firm deliver to a client all information that a reasonable investor would consider important about the client's relationship with the registrant and details the information that must be provided.

## Summary of items to be included:

- Type of account and products sold by the firm
- Risks
- Conflicts
- Fees, charges and compensation
- Content and frequency of reporting
- Dispute resolution and mediation services available
- Suitability
- Information to be collected about the client
- Explanation of performance benchmarks

# Relationship disclosure information

- Registrants should ensure that clients understand who they are dealing with
- Communication should be in language that the client can understand
- Firms should have policies and procedures to evidence compliance with client disclosure requirements
- Must be delivered to clients in writing (other than the general description of the products and services offered which can be provided verbally)

# Types of risks that a client should consider

Registered firms are required to provide clients with a general description of the types of risks that a client should consider when making an investment decision.

## Guidance for PMs

- Explanation of the risks associated with making the investment
- Risks should be relevant

## Guidance for EMDs

- Explanation of the specific risks of each product
- Discussion of the risks of investing in the exempt market

# Conflicts of interest

A registered firm must take reasonable steps to identify and respond to existing and potential material conflicts of interest between the firm and the client.

## Guidance for PMs

- Areas to consider:  
soft dollars, fair allocation and personal trading
- Disclose and describe all potential and existing conflicts in detail

## Guidance for EMDs

- Areas to consider:  
compensation received from issuers and affiliation with issuers
- Consider whether the disclosure in the OM relates to the issuer's conflicts which may not be reflective of the conflicts of the firm

# Costs

A registered firm must provide disclosure of the operating charges the client might pay related to the account.

A registered firm must provide a description of the types of transaction charges the client might be required to pay.

## Guidance to PMs

- Provide a clear description and calculation method
- Disclosure of fees related to third party arrangements
- Disclosure of any negotiated fixed fees

## Guidance to EMDs

- Disclose all trading costs for a client including direct and embedded compensation
- Description of custodial fees if applicable
- Holding costs associated with the investment

Paragraph 14.2(2)(f) and 14.2(2)(g)

# Information that must be collected about clients

A registered firm must disclose the information that they must collect about their clients as required by section 13.2 of NI 31-103 *know your client*.

## PMs and EMDs

Registered firms should provide clients with a statement that lists and describes the information that they must collect, and an explanation of how the firm uses this information to assess the suitability of investments for clients.

Sample: MFDA Bulletin #0578-P “Opening Your Investment Account” Information Sheet

Paragraph 14.2(2)(1)

# Promoting client participation

Registered firms should help their clients understand the registrant-client relationship and encourage clients to actively participate by:

- Keeping the firm up to date
- Being informed
- Asking questions
- Staying on top of their investments

# Concerns with deficient RDI information

Clients rely on and make decisions based on a firm's RDI.

If the RDI is deficient clients may:

- Misunderstand the products and services
- Incorrectly gauge the risk of the products/strategy
- Be unaware of the fees and costs
- Be unaware of conflicts of interest

# Acceptable practices for delivering RDI

- Provided in a form that best communicates the RDI to clients
- Provided at account opening or at the latest prior to making or advising the client on an investment
- Delivering the RDI information in person
- Requiring the client to acknowledge receipt
- Advising clients of any changes to RDI

# Questions