

Principles and Practices for the Sale of Products and Services in the Financial Sector

Companion Piece - Examples for Securities Representatives

This document is a companion piece to the *Principles and Practices for the sale of Products and Services in the Financial Sector* and sets out examples of business practices for each principle.

1. Interests of the Client

The client's interests take priority over the intermediary's interests and should not be sacrificed to the interests of others.

Commentary: This principle is paramount. All remaining principles and practices expand upon this fundamental principle.

Example: The interests of the client would not be taken under consideration if a sales representative, knowing that he would receive a higher commission, sold a high risk investment to a client that was considered very conservative with low risk tolerance.

2. Needs of the Client

A sales representative should obtain information to ensure investments are suitable for the client.

Example: The type of information that a sales representative should obtain includes:

- level of investment knowledge of the client (i.e., a sophisticated and knowledgeable investor or a novice investor needing a lot more information);
- risk tolerance;
- investment objectives (e.g., income, capital gains);
- up-to-date know your client information (i.e., to the extent it impacts the client's ability to withstand losses, understand the product).

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3. Legitimate Business Interests

The intermediary must collect enough information about the client and the transaction to reasonably determine the identity of the client and that the transaction is lawful. The intermediary must not act on behalf of a client when there are reasonable grounds to believe that the transaction is of an unlawful nature.

Commentary: When obtaining information about the client and his/her business, the intermediary must not continue to act for the client if it is known or should be known that the transaction is unlawful. In some circumstances, the intermediary will be required to report the transaction to regulatory authorities.

4. Professionalism

Intermediaries must act in good faith at all times. They must acquire an appropriate level of knowledge relating to their particular business and meet high standards of professional ethics, including acting with honesty, integrity, fairness, due diligence and skill. The concept of professionalism includes but is not limited to the following:

- a. **Education:** In a rapidly changing financial marketplace, intermediaries must keep abreast of changes in products, regulations and other factors that will affect their ability to provide high standards of service to clients. Education, including continuing education, is a necessary component of professional skill.

Example: Sales representative should be knowledgeable about all of the products he sells, as well as current securities regulations. This requires ongoing training. Dealers should provide adequate training for sales representatives regarding new product information, legislative changes, office procedures and provide the opportunity to attend courses and professional conferences.

- b. **Holding Out:** An intermediary must inform the client of the business licenses and registrations held, as well as the business name(s) of firm(s) under which he or she is licensed to operate.

Example: When sales representatives are selling multiple products, some of which the mutual fund dealer is not registered to sell, they fail to provide information to the client about who is providing the product. The client might not be aware whether the mutual fund dealer or insurance broker is selling the product.

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- c. **Advertising and all other Client Communications:** Intermediaries must ensure that all references to their business activities, services and products are clear, descriptive and not misleading.

Example: All dealers must comply with National Instrument 81-105 - Sales Practices. The National Instrument (NI) says that a fund company cannot pay money, provide a non-monetary benefit or reimburse expenses to a dealer or a sales representative unless these payments are permitted by the NI. For example, permitted payments include commission (at a rate disclosed in the prospectus) and promotional items such as pens, calendars, T-shirts.

- d. **Business Operations:** Intermediaries must ensure that their financial records are properly maintained and that they follow sound business practices.

Example: A dealer must keep proper books and records detailing all business transactions (e.g. purchases and sales of securities) and financial information (e.g. revenue, expenses, commissions, capital).

- e. **Fair Practices:** Intermediaries must not engage in practices that intentionally mislead the client or place the interests of others ahead of the client's interests. Unfair practices are contrary to the underlying spirit of the principles and practices set out in this document. The intermediary must refrain from practices that contravene, directly or indirectly, the spirit or intent of any of the requirements of these principles and practices.

Example: Part 7.4 of the National Instrument 81-105 - Sales Practices prohibits anyone from requiring that they invest in or switch investments (e.g. switch to a specific family of mutual funds from another family) as part of another transaction - such as obtaining a mortgage loan. This practice would be considered "tied selling".

- f. **Financial Accountability:** Intermediaries should have appropriate resources in place to compensate clients who suffer a loss as a result of an error, omission or fraudulent activity that is caused by the intermediary or someone for whom he or she is responsible. The intermediary must ensure that all financial obligations are met and should strive to exceed all existing requirements for professional liability insurance, errors and omissions insurance, trust accounts, deposits or other fiduciary measures.

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Example: All mutual fund dealers must have adequate insurance, as dictated by rules, to cover loss:

- through any dishonest or fraudulent act of any of its employees or agents;
- of cash and securities or other property through robbery, burglary, theft, hold-up or other fraudulent means;
- of cash and securities or other property through robbery, burglary, theft, hold-up misplacement while in transit or in the mail;
- through forgery or alteration of any cheques, drafts, promissory notes or other written orders.

Commentary: Professionalism means that intermediaries will strive to adhere to best practices and will not be limited to standards required under law or regulation.

5. Confidentiality

Intermediaries must protect clients' personal information and take all reasonable steps to ensure that personal information is not divulged and is only used for the purpose for which it was collected, unless the client provides proper authorization, as required by applicable laws or regulations, to divulge personal information to others for reasonable purposes. Intermediaries must not use personal information to the detriment of the client. However, personal information may be divulged without client consent to, for example, law enforcement agencies when required or authorized by law.

Commentary: The requirement of confidentiality extends to participants in group plans. A basic requirement for intermediaries is to ensure that proper care is taken when handling documents that contain personal information provided by clients/group plan participants. The damage to the client is the same regardless of whether personal information is divulged to someone willfully or as a result of careless handling of files.

Example: There are specific rules that govern dealers. These rules dictate that information relating to a client, or the business and affairs of a client must be maintained in confidence and that dealers must have written policies and procedures regarding confidentiality.

6. Conflicts of Interest

The intermediary must avoid situations where the underlying circumstances could tend to prejudice or bias the direction of advice he or she provides. In the case of a conflict of interest, the client must be made aware of the nature of the conflict before the transaction takes place.

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Commentary: If a situation arises where a conflict exists and cannot be avoided, the condition can only be mitigated by objective, plain-language disclosure to the client of the nature and impact of the conflict. The client must then be given an opportunity to halt the transaction, to seek other professional advice, or to knowingly proceed with the transaction.

Example: Specific securities rules dictate that dealers must disclose any conflict of interest to clients. Examples of such conflicts includes:

- sales representatives selling securities in which they hold a significant equity interest;
- promoting leveraging to clients in order to increase sales and commission revenues.

7. General Information Disclosure

The intermediary has the responsibility to ensure that the client is fully informed of all relevant information before the client makes a decision. The client is entitled to disclosure of the risks and benefits of the financial products being considered and information about the intermediary's business relationships as they pertain to the transaction.

Commentary: There are two aspects to disclosure and both must be satisfactorily taken into account under these principles and practices: (1) "product information" regarding product or service features, as well as the main risks and benefits inherent in the transaction or purchase; and (2) "intermediary information" regarding relationship issues which are important to the consumer.

- a. **Product Information:** In addition to clearly describing the product or service for the client and the ways in which the transaction will fulfil the needs of the client, product information includes disclosure of important assumptions underlying any illustrations or examples that have been provided to the client, as well as the fact that actual results may differ significantly from those shown. The intermediary should avoid using examples or illustrations which he or she knows, or ought to know, are based on unusual results or a period that generated much better than normally anticipated performance.

Example: Information that should be disclosed includes:

- risks of leveraged investments;
- referral arrangements or income splitting with other sales representatives;
- commission rate;
- risk associated with certain investments.

- b. **Intermediary/Business Relationship Information:** The intermediary must include the names of organizations or persons that are, to his or her knowledge, directly or indirectly, providing remuneration to the intermediary; the relationship between the intermediary and the firm whose product is being considered; and any relationship(s) among the firms involved in a transaction. Any other direct or indirect relationships that are relevant to the transaction should also be disclosed by the intermediary. In cases where this information has not been disclosed because the intermediary is unaware of it, it is expected that he or she will have first made a reasonable effort at due diligence. The intermediary must also disclose all fees payable by the client, the method of the intermediary's remuneration (disclosure of specific amount is not required, but disclosure of the type of compensation is, i.e. fixed and percentage commission, salary, or other) and must disclose the existence of any other benefits from sales incentive programs related to the transaction (note: as with compensation, this disclosure only applies to the type of compensation the intermediary receives, not the specific amount).

8. Client Redress

The intermediary must deal directly with all formal and informal complaints or disputes, or refer them to the appropriate person or process, in a timely and forthright manner.

The intermediary must be fully aware of all applicable processes for dealing with complaints and must disclose to all clients the channels available for pursuing different types of complaints (e.g., regarding conduct, service, or product performance). In the case of an individual authorized to do business in more than one sector, it is particularly important that the client be made aware of the different lines of accountability for complaint handling that are associated with each transaction. In situations where a dispute cannot be resolved intermediaries should provide to clients, preferably in writing, the redress mechanisms that can be pursued, depending on the product and type of complaint involved.

Example: Each dealer must establish written procedures to deal effectively with client complaints. These should include:

- acknowledgment of all client complaints;
- a written response to the client conveying the results of the investigation of the complaint;
- complaints should be handled by a qualified individual;
- head office and senior management should be informed about any pending legal actions and serious misconduct;

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- sales representatives and their supervisors should be made aware of all complaints by their clients;
- complaints should be maintained in an orderly manner and readily accessible.

Each complaint should include the date, name of complainant, subject of complaint (name of person), securities/services which are subject of complaint, resolution of complaint (date plus supporting documentation).

9. Compliance

If a financial industry association purports to set standards for its members, it is expected that such standards would be set out in a code of conduct which would incorporate the principles and practices set out in this document. The association is also expected to have a system to promote compliance and develop systems to resolve complaints against their members. Intermediaries who are not members of an association are expected to follow the principles and practices on the basis of adhering to industry best practices.

10. Definitions

“**Client**” means any customer or potential customer with whom an intermediary interacts in the course of his or her business.

“**Intermediary**” means a participant in the financial services industry who markets products or provides financial advice or services to clients. In a particular instance this could be a person, firm and/or a financial institution.

“**Personal Information**” means information that the client would expect to remain confidential because it was conveyed for the purpose of the financial transaction.