MYSTERY SHOPPING FOR INVESTMENT ADVICE

Insights into advisory practices and the investor experience in Ontario

September 17, 2015

OSC Staff Notice 31-715

IIROC Notice Number 15-0210

MFDA Bulletin #0658-C

Who we are: As a regulatory body, the OSC administers and enforces compliance with the provisions of the *Securities Act* (Ontario) and the *Commodity Futures Act* (Ontario). Specifically, we work to protect investors and foster fair and efficient markets by making and monitoring compliance with rules governing the securities industry in Ontario.

Our Mandate: To provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets.

Who we are: IIROC is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. IIROC sets high-quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive capital markets. IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees, and through setting and enforcing market integrity rules regarding trading activity on Canadian equity markets.

Our Mandate: We set and enforce high-quality regulatory and investment industry standards, protect investors and strengthen market integrity while maintaining efficient and competitive capital markets.

Who we are: The Mutual Fund Dealers Association of Canada (MFDA) is recognized as a self-regulatory organization (SRO) for mutual fund dealers in Canada. We regulate MFDA Members and their 82,000 advisors operating in over 20,000 locations across Canada.

Our Mandate: We regulate the operations, standards of practice and business conduct of our MFDA Members and their advisors to protect investors and maintain public confidence in the Canadian mutual fund industry.

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Executive summary

The Ontario Securities Commission (OSC), Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA) are committed to advancing regulatory reforms that put the interests of investors first. The OSC has undertaken a number of research projects to collect and analyze data to determine whether any specific regulatory measures are needed to improve the quality of investment advice and the client experience in their interactions with advisors in the securities sector. Mystery shopping is one of the forms of research we chose to conduct to inform our decisions on these crucial investor protection policies.

Mystery shopping financial advisors in Ontario across four platforms was a form of market research that came with certain challenges. The financial advice market is complex – there are multiple types of advisors, platforms, business models and products. Nevertheless, we wanted to try a new research technique to examine how our current rules around advice – "Know – Your-Client" (KYC), "Know-Your-Product" (KYP) and suitability – work in practice, from the vantage point of a retail investor, across all platforms where retail investors may seek advice.

This mystery shop research offered a line of sight into the advice process through the eyes of potential investors. By taking this perspective, we could see how investors participate in the advice process, how they understand it, and what their expectations are when they get advice. We were also able to reflect on how those experiences and their understanding and impressions correspond with our regulatory expectations. Set out below are the key findings, conclusions and next steps from this research.

Key findings and conclusions

- Shoppers were less likely to receive a product or specific recommendation in an initial meeting:
    - In 24 of 88 shops (27%) the shopper received a product or specific recommendation
    - In 32 shops (36%) the shopper received general advice and in the remaining 32 shops (36%) no advice was given
- Shoppers were more likely in an initial meeting to receive information from advisors about products and services offered and to discuss investment objectives and goals:
    - Advisors disclosed the products they sell and services they offer in 78% of shops
    - Advisors asked about the shoppers' account-specific investment objectives in 89% of shops
- Shoppers were less likely in an initial meeting to be asked about core KYC information or to hear about the risk-return relationship, product fees and advisor compensation:
    - In 32% of shops, advisors gathered thorough KYC information from shoppers
    - Advisors and shoppers discussed the risk-return relationship in 52% of shops
    - Product fees were discussed in 56% of all shops
    - Advisor compensation was discussed in 25% of all shops

Conclusions

1. It is difficult for investors to comparison shop for financial advice, especially on important aspects such as fees and costs.
2. When they first meet with an advisor, investors will more likely hear about products and services offered and discuss their investment goals and objectives. It is less likely they will hear about fees and costs, advisor compensation or the relationship between risk and return.

- Shoppers' impressions of their experiences were by and large positive. Sixteen per cent (16%) of shoppers indicated a negative experience
- Advisors usually communicated well with shoppers. In 68% of shops, shoppers indicated that advisors' communications were in plain language, balanced and responsive
- An extensive variety of business titles was observed across all platforms. In all, 48 different titles were used by advisors on the four platforms shopped

Conclusion

3. From the perspective of an investor, the number and variety of business titles encountered when shopping for advice can make the process of choosing an advisor a complex one.

- From a compliance standpoint, the results show a range of practices in use – best practices, compliant practices and non-compliant practices were all found
- We saw variations in practices within the same platforms and across shops that progressed to different stages
- In the 24 shops where a product or specific recommendation was made, we found:
    - In 21 of the 24 shops a product was recommended. In the remaining three shops, the shoppers received a specific recommendation to seek advice elsewhere, or were advised on how to allocate their assets in different investments or through different accounts
    - In the 21 shops where a product was recommended, 86% of those recommendations were suitable; the remaining 14% of recommendations were unsuitable due to asset concentration issues
    - 71% of shops complied with KYC, KYP and suitability requirements and 29% did not
    - 63% of shops fulfilled all compliance expectations, including a discussion of fees and costs
    - In 50% of shops, the advisors gave a verbal explanation of how the recommendation related to the shoppers' circumstances and goals
    - In cases where advisors recommended shoppers purchase mutual funds, fund of funds were recommended 59% of the time and stand-alone funds were recommended 41% of the time. On the exempt market dealer platform 57% of the recommendations were in real estate-related products
    - In 79% of shops the advisors collected thorough KYC information
    - In 71% of shops, product fees were discussed
    - In 33% of shops, advisor compensation was discussed

- In 88% of shops, shoppers indicated that they received sufficient information to make an informed decision. However, of those who felt sufficiently informed, 33% had an experience that did not meet our compliance expectations

- In 79% of shops, asset concentration was addressed appropriately by the advisor

Conclusions

4. Advisors' practices in the advice process vary and the elements of the process may occur in a variety of ways and at different stages. This makes it challenging for an investor to understand what to expect when dealing with an advisor.
5. Suitable recommendations might be made based on an incomplete advice process where topics such as risk tolerance, fees and costs are not discussed.
6. Investors do not always know if they have experienced a good advice process.
7. Greater emphasis must be placed on improving the investor experience in the advice process through advisor practices that make it more accessible and understandable.
8. Investors must be given better tools and support to seek out and receive good advice.

- In the 64 shops where shoppers did not receive a product or specific recommendation we found:
  - The explanation of the risk-return relationship was assessed in 47% of shops (30 of 64), and was primarily compliant, with best practices noted in seven shops and non-compliant practices found in two shops
  - Collection of core KYC information was assessed in 59% of shops (38 of 64) and of these, we primarily saw compliant practices, but also observed best practices in six shops and non-compliant practices in three shops
  - Product and service fees were assessed in 55% of shops and those discussions were mainly compliant
  - Elements that were largely compliant were the discussion of product/service offerings (83% of shops), investment goals (89% of shops) and communications (94% of shops)
- Leveraging was not recommended in any of the shops
- There were no examples of serious misconduct that necessitated regulatory action

Conclusion

9. In initial meetings, advisors tend to focus on what they can sell and what investors may be interested in purchasing based on a general discussion of their investment goals.

Next steps

The OSC, IIROC and MFDA, after considering the results of the mystery shop carefully, have set out an action plan to promote and enhance ongoing, vigilant compliance oversight of registrants; education and outreach with registrants and investors; and the pursuit of changes to regulatory requirements that apply to registrants and how they interact with investors.

We must build on our past efforts to enhance practices in the advice process. We plan to increase our focus on KYC, KYP and suitability in our respective compliance programs and in our guidance, outreach and education efforts.[1] We are all committed to improving the advisory process and the overall experience investors have when seeking investment advice.

We urge the investment industry to review and respond to these findings - and we hope that these findings spark a larger discussion about the investor experience and how we can work together so that investors receive advice that leads to positive outcomes.

The OSC will:

- Continue to focus programs on the compliance and effectiveness of registrants' KYC, KYP and suitability practices and take the necessary action when we see practices that do not meet our expectations
- Provide firms and registrants with additional guidance and education on our expectations for enhancing the advice process and the advisor-client relationship
- Work with the SROs to reinforce the best practices laid out in the evaluation benchmarks
- Implement a targeted strategy so that investors have the critical tools they need to find, work with, and evaluate an advisor and consider different investment products to make more informed investment decisions
- Consider the findings from the mystery shop in our policy development on crucial investor protection initiatives, including developing and evaluating proposals for a best interest requirement and addressing embedded fees and commissions
- Evaluate potential targeted regulatory reforms and guidance under securities regulation to improve the advisor-client relationship, addressing areas such as KYC, KYP, suitability and business titles
- Examine opportunities for applying insights from the mystery shop research and the field of behavioural science to investor-focused policy development and programs

IIROC will:

- Increase the content and breadth of distribution of educational materials designed to help retail investors understand the KYC process and its importance to the advisor-client relationship
- Continue to ensure our compliance examinations and enforcement priorities promote compliance by IIROC dealers with IIROC's current requirements and guidance regarding:
  - the relationship disclosure information that is required to be provided to clients to help them understand why the KYC information collected by the IIROC dealer is important
  - the use of misleading business titles and designations[2]

[1] See Appendix F for details on selected guidance provided on KYC and suitability.
[2] See Appendix F for a list of relevant IIROC guidance.

- Assess the impact on the KYC process of the evolution of business models used by IIROC dealers – including the use of new on-line tools and model portfolios – and consider potential regulatory reforms and/or guidance to ensure that IIROC's KYC requirements appropriately align the types and depth of KYC information collected with the business models used
- Develop guidance designed to assist IIROC dealers in training their advisors to better explain, and identify the level of client understanding of, important KYC concepts that are relevant to the service being provided, taking into account the results of the qualitative research IIROC conducted on the KYC process through investor consultations

MFDA will:

- Continue to develop guidance to improve the quality of advice and the overall client experience. This will include the development of best practice guidance on the advisory process and involve input from advisors on common problems they face and practical solutions to address them. We will also develop guidance on specific topics such as KYC practices and the transparency and suitability of fees and charges
- Develop plain language communication to educate investors on the advisory process including what to expect when meeting with an advisor, the KYC collection process, advisor licensing and qualifications, the nature of the services to be provided, and key regulatory requirements
- Continue to protect seniors by focusing compliance and enforcement efforts on senior investors and by providing Member education and guidance on key issues applicable to seniors
- Provide further guidance on the use of titles. Specifically, initiatives will be focused on the use of titles targeting senior investors and the use of the "financial planner" title
- Institute a continuing education requirement for advisors in order to keep their industry knowledge current and maintain a high standard of professionalism
- Continue to develop clear and objective regulatory standards and practical guidance to promote compliance by Members and advisors

Background – Why we did the mystery shop

In Canada, more investors are turning to professionals for advice than ever before. According to the Canadian Securities Administrators (CSA)[3] Investor Index, 49%[4] of Canadians had a financial advisor in 2012, up from 42%[5] in 2006. The quality and value of advice are key considerations in achieving positive investor outcomes. Investors need to be confident that the advice they receive before purchasing financial products and services is of high quality and appropriate for their circumstances.

Securities laws and the rules of IIROC and the MFDA require registrants to deal fairly, honestly and in good faith with clients. Collectively, they set out the principles of KYC, KYP and suitability obligations for registrants. These obligations are the core investor protection controls that work together to require advisors to know the client, know the product and then to make recommendations that are suitable to the client's specific circumstances.

The OSC, IIROC and MFDA are committed to advancing regulatory reforms that put the interests of investors first. The OSC has undertaken a number of research projects to collect and analyze data to determine whether any specific regulatory measures are needed to improve the quality of investment advice and the client experience in their interactions with advisors in the securities sector.[6] Mystery shopping is one of the forms of research we chose to conduct to inform our decisions on these crucial investor protection policies.

Mystery shopping is a form of consumer market research where individuals, acting as potential customers, are trained to objectively record their observations and interactions with service providers. A number of securities regulators around the world have used mystery shopping exercises to collect information on retail investor experiences to support future policy development and inform regulatory compliance programs.[7] This form of research has allowed us to observe first-hand a retail investor's experiences when interacting with an advisor and to assess the business and sales practices of the advisor through that lens.

> The findings from the mystery shop are one input that will be considered in our policy development on crucial investor protection policies.

This report describes the results of a mystery shop of advisors across Ontario conducted as a joint initiative by the OSC, IIROC and MFDA.

We encourage advisors and their firms to use the findings and associated commentary to enhance their relationships with their clients and strengthen their compliance with regulatory requirements. We also encourage investors to use this report to enhance their understanding of what they can expect when seeking investment advice and working with an advisor in the preliminary stage of the process.

[3] The Canadian Securities Administrators (CSA) is an umbrella organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets.

[4] 2012 CSA Investor Index.

[5] 2006 CSA Investor Index.

[6] References to "advisor" in this report mean, unless otherwise specified, dealers and/or advisers (and their representatives) that are registered to sell securities and/or provide securities advice to retail investors.

[7] Regulators that have used mystery shopping include the Financial Conduct Authority in the United Kingdom, the Hong Kong Monetary Authority in Hong Kong, and the Monetary Authority of Singapore.

Purpose and design – How we did the mystery shop

The purpose of the mystery shop research was to assess shoppers' experiences and evaluate the quality of the investment advice process. Four investment platforms were shopped:

- Exempt market dealer (EMD) - OSC registrants that offer exempt products including limited partnerships, hedge funds, flow-through shares, real estate trusts and private shares to qualified individuals and institutional clients.
- Investment dealer - IIROC registrants that offer all types of securities including stocks, bonds, derivatives, and managed investment products to retail and institutional investors.
- Mutual fund dealer – MFDA registrants that offer primarily mutual funds to retail clients, and may also offer other products and services including exchange-traded funds, exempt market securities, insurance products, GICs and financial planning.
- Portfolio manager (PM) - OSC registrants that provide discretionary management services to high net worth individuals and institutional clients, either through segregated accounts or pooled funds.

Each of these platforms offers different products and services to investors. Please see Appendix A for descriptions of each platform's registration category, proficiency requirements, business model, products/investments offered and the clients they serve.

This was our initial foray into mystery shopping as a form of research to support our regulatory initiatives. We took the time necessary to plan, prepare and then execute the shops to achieve the best chance of success. In the first year we focused on carefully designing the shop scenarios for each platform, developing the questionnaires, creating the evaluation benchmarks, engaging the market research firm and working with them to develop the sampling methodology to select the advisors to be shopped. Lastly, we worked with the research firm to train the shoppers. In the second year we turned to the actual execution of the shops, which we did in three stages starting in July 2014.

The market research firm conducted the mystery shops throughout Ontario from July to November 2014. Our goal initially was to target a random sample of 150 advisors across the four platforms. One hundred and five shops (105) were completed and of these 88 shops had sufficient data that would allow us to assess the shop responses against the evaluation benchmarks. These were comprised of 11 EMDs (out of a target of 37), 30 investment dealers (out of a target of 38), 34 mutual fund dealers (out of a target of 38) and 13 PMs (out of a target of 37).

While we nearly achieved the target number of shops for investment dealers and mutual fund dealers, the task was more difficult for EMDs and PMs. We encountered difficulties accessing these platforms which are typically more selective in accepting new clients and often rely on referral networks to obtain new clients. Mystery shoppers were not given actual money to use and were not expected to open an account, buy an investment product or commit to any investment strategy. The mystery shops were not audiotaped or videotaped. All of these factors were additional constraints that affected the results of the mystery shops.

Given these limitations, we expected that the majority of mystery shops would not proceed beyond one meeting. All but one of the shops involved only a single meeting, and for the majority, the interaction between advisor and shopper was preliminary in nature. In the end, 24 of the 88 shops resulted in product or specific recommendations.[8] In the remaining 64 shops general advice or no advice was given. Nevertheless, shoppers were able to record sufficient information about their experiences that the results could be evaluated for the purposes of research and compliance.

[8] In shops with product recommendations, a specific product recommendation was given to the shopper. In shops with specific recommendations, general advice was given to the shopper, such as a general investment strategy (e.g., pay off debt, invest in RRSPs, etc.) or to seek alternative advice (e.g., directed to another firm).

Four external advisory panels, one for each platform covered in the mystery shop, provided input at various junctures of the project, including the development of the shop scenarios, evaluation benchmarks, and post-shop questionnaire, and the assessment of a sample of shop results.[9]

A core part of our research was a set of evaluation benchmarks against which the experiences of the mystery shoppers were assessed. Developed to reflect current regulatory requirements and expectations for advisors in the four platforms assessed, the evaluation benchmarks set out specific criteria for best practices, compliant practices, and non-compliant practices of advisors through the advice process.

Each shopper was instructed to approach a registered advisor or firm for advice on how to invest a lump sum of money. Eight variations of this scenario were developed to reflect typical investor situations for the different registrant categories: three scenarios were developed for investment dealers, two for mutual fund dealers, two for exempt market dealers and one for portfolio managers. The scenarios varied by size of investable assets, financial circumstances, risk appetite, investment time horizon, and investment objective. Appendix B provides details of the shop scenarios and selected characteristics of the mystery shoppers.

The shoppers were instructed to continue their role-playing scenarios as far as possible in the advice process. Within twelve hours of meeting with an advisor, shoppers completed a detailed post-shop questionnaire, which covered their experience in four critical areas:

1. Collection of personal information/circumstances
2. Recommendation
3. Communication with shopper
4. Disclosure of fees, charges and compensation

INTERPRETATION OF RESEARCH AND COMPLIANCE RESULTS

The research results provide us with important information about what occurred during initial meetings between shoppers (posing as potential investors) and advisors across different platforms. They are not an evaluation of compliance.

The compliance results evaluate the shoppers' experiences to determine how well advisors took shoppers through the advice process. The fact that a shop did not progress to a recommendation should not be seen as a compliance failure.

The results for the 24 shops with a product or specific recommendation offer valuable insights but are not necessarily representative of the larger advisor population.

An in-depth discussion of the mystery shop research design and project roll-out can be found in Appendix B. The pre-shop questionnaire can be found in Appendix C and the post-shop questionnaire can be found in Appendix D. The evaluation benchmarks applied to assess the shops can be found in Appendix E. Selected guidance for registrants in their dealings with clients, from the OSC, IIROC and MFDA, can be located in Appendix F.

At the core, this was a research project. Our focus was on gaining a better understanding of the investment advice process from the perspective of the investor, specifically in the areas of disclosure of product/service offerings, collection of KYC information, advisor communication and discussion of fees and compensation. The shoppers' responses in the 88 post-shop questionnaires provide us with important information about the retail investor experience across the four platforms, and specifically on what topics were and were not addressed during initial meetings between the shoppers (posing as potential investors) and advisors.[10] Part I of the report presents these objective results, including the relevant questions from the post-shop questionnaire that provided the data we analyzed for each topic.

It was also important for us to consider how the results of the shops met our expectations for compliance, so we assessed the quality of the shoppers' experiences against the evaluation benchmarks. Taking into account the platforms shopped, the shop

9 The members of the advisory panels were subject to confidentiality agreements.

10 We looked at all relevant data in the post-shop questionnaire in evaluating the shop results. No other factors were considered such as the shop scenario, the type of dealer, the progression of the shop, or whether a recommendation was made.

scenarios and how far the shops progressed toward a product or specific recommendation, we could identify specific instances of best practices, compliant practices and non-compliant practices across the 88 shops. The further a shop progressed, the more we could evaluate from a compliance standpoint. We should note that the results for the 24 shops offer valuable insights, but are not necessarily representative of practices of the larger advisor population. The 64 shops that did not progress to a recommendation were also assessed, but our expectations were different in those cases because advice was not given. This is important, because the fact that a shop did not progress to a recommendation should not be seen as a compliance failure. Part II of the report includes our compliance assessments of the shops.

The findings described in Parts I and II of the report reflect a different focus on the results of the shops. This means that if a certain activity or part of the advice process did not occur, there was not necessarily a compliance failure.

Part I

Research results

Overview

What follows is a description from a research perspective of what was observed in the 88 mystery shops across all four platforms for each assessment criterion contained in the evaluation benchmarks. The research evaluation excluded the criteria related to any recommendations made in the shops, i.e. if the recommendation was suitable, if leverage was recommended, or if asset concentration was considered as part of a recommendation (criteria 2A, 2B and 2C respectively in the evaluation benchmark). These elements were considered only from a compliance standpoint for the 24 shops in the EMD, IIROC and MFDA platforms that proceeded to a product or specific recommendation. In the presentation of the research results below, the section numbers correspond to the criteria from the evaluation benchmark.

It is important to reiterate that all but one of the shops involved only a single meeting, and for the majority, the interaction between the advisor and the shopper was preliminary in nature. Mystery shoppers were not given actual money to use and were not expected to open an account, buy an investment product or commit to any investment strategy. The mystery shops were not audiotaped or videotaped.

Figure 1: Aggregate research results for all shops

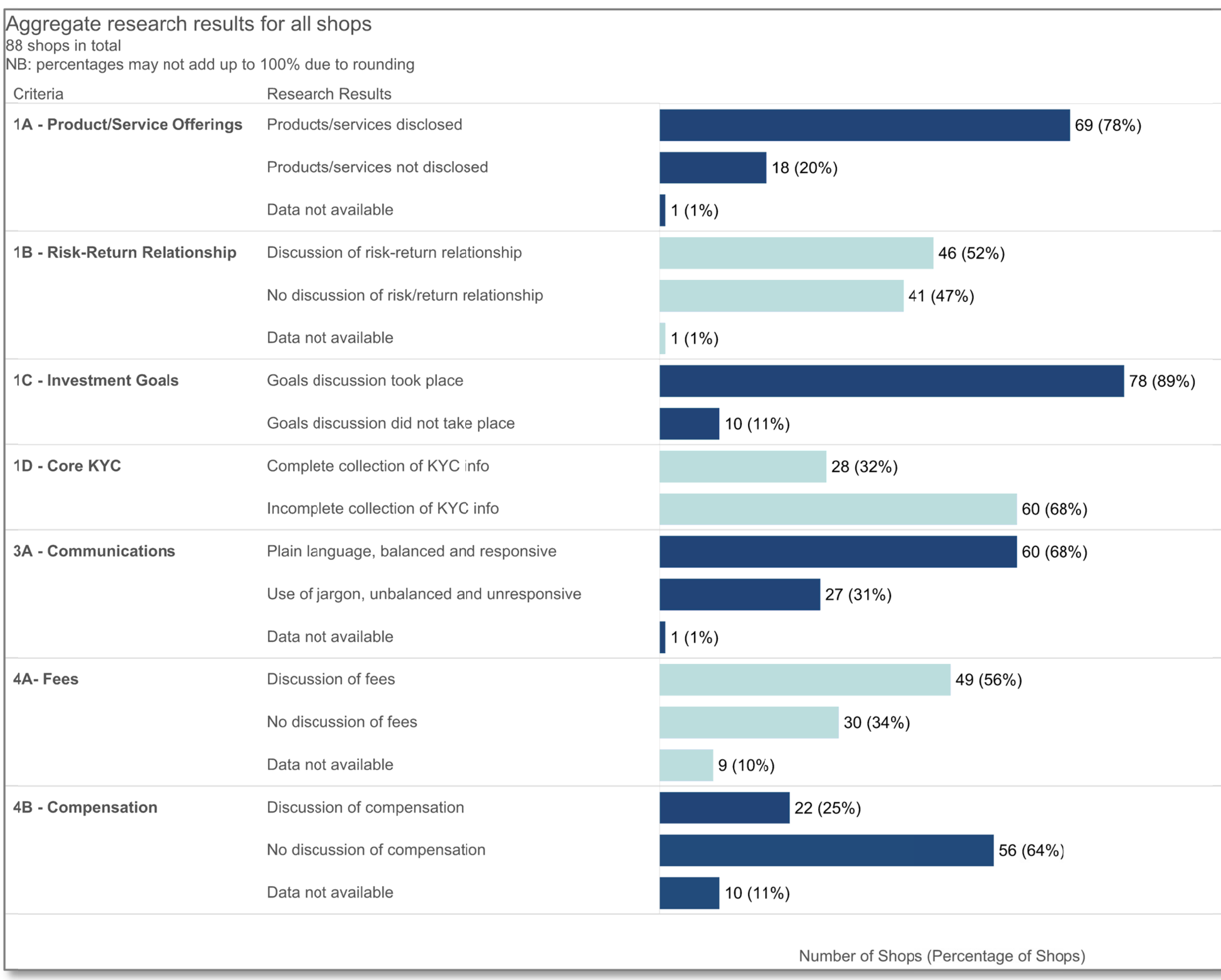


Figure 2: Research results for shops with exempt market dealers (EMD platform)

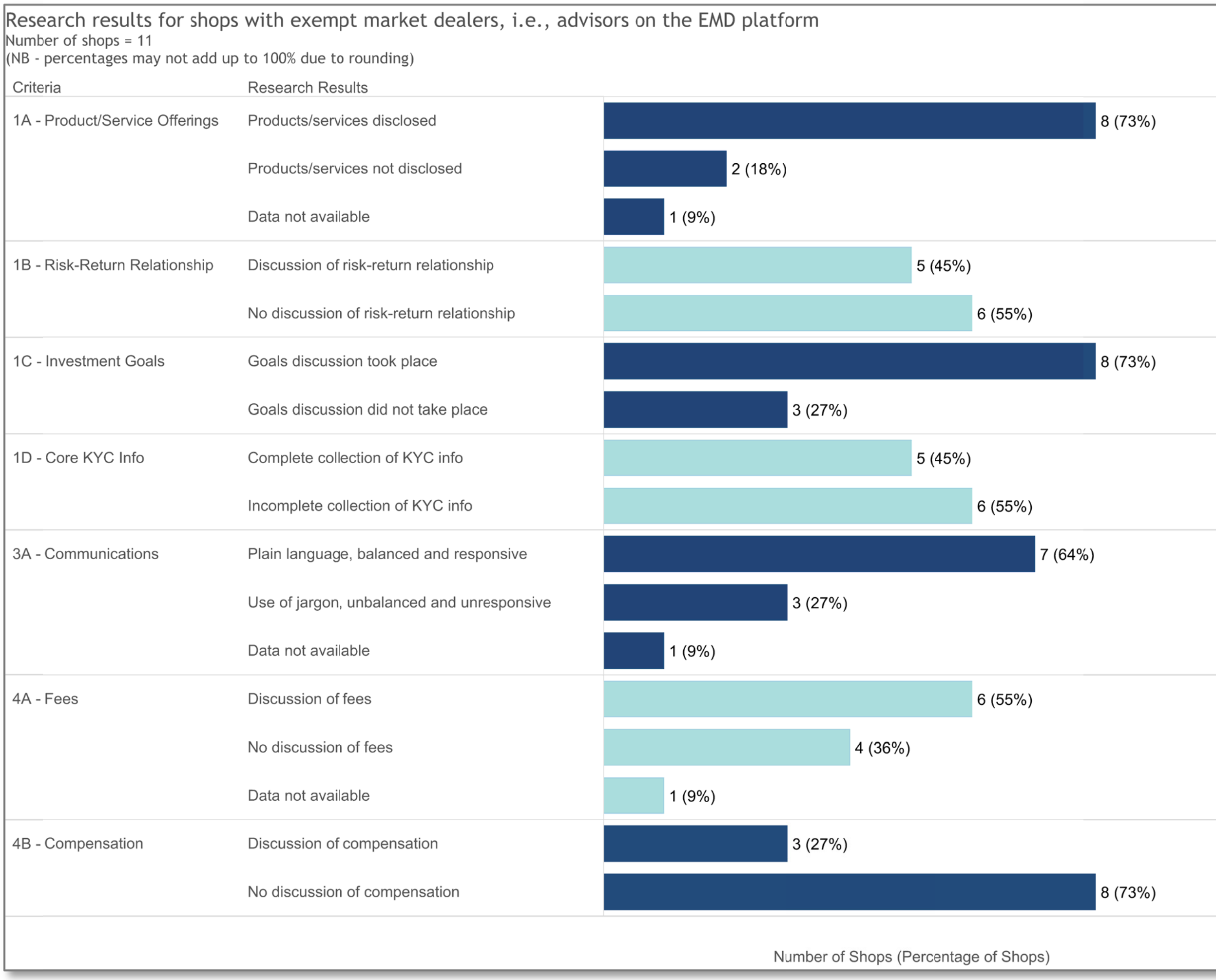


Figure 3: Research results for shops with investment dealers (IIROC platform)

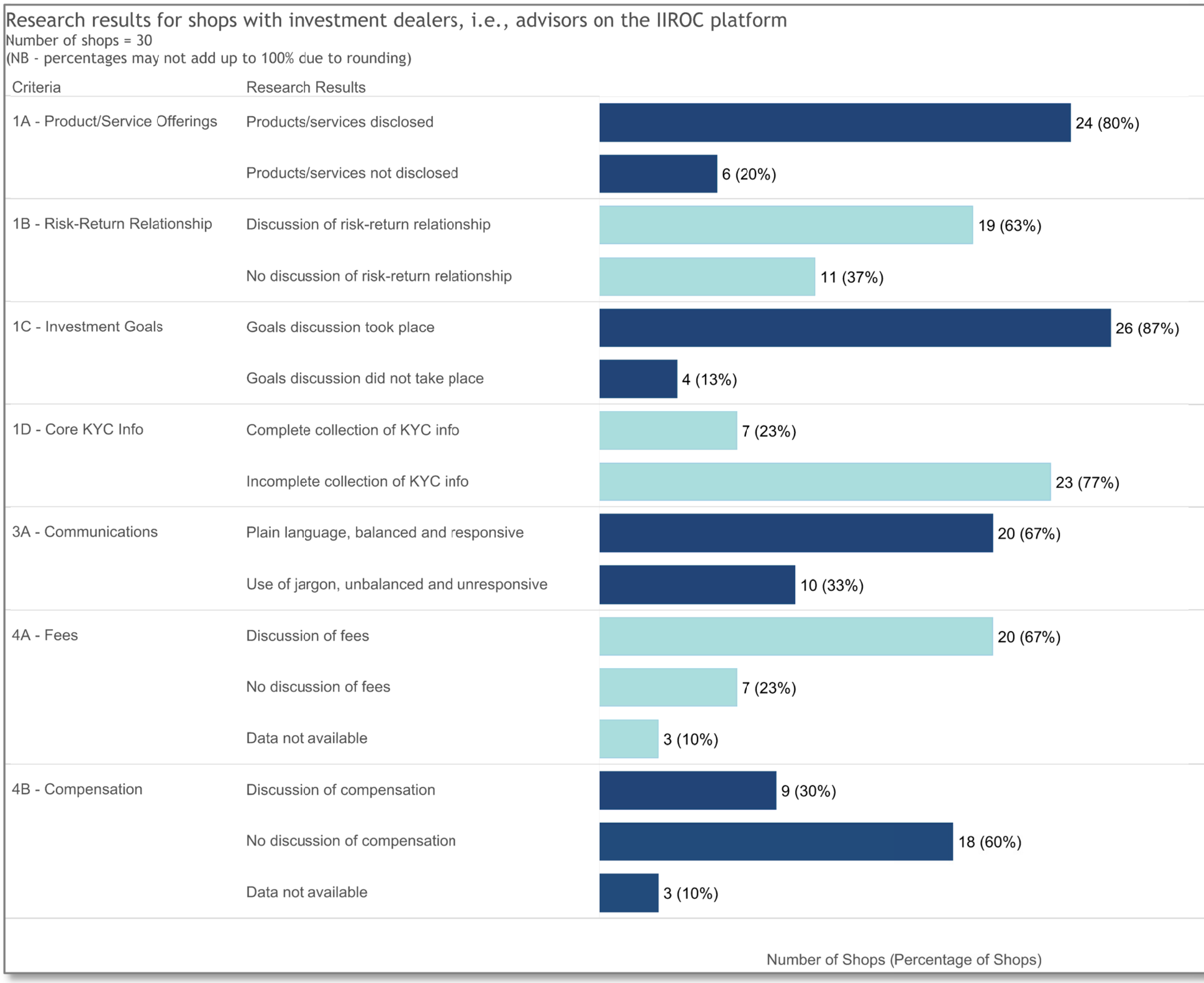


Figure 4: Research results for shops with mutual fund dealers (MFDA platform)

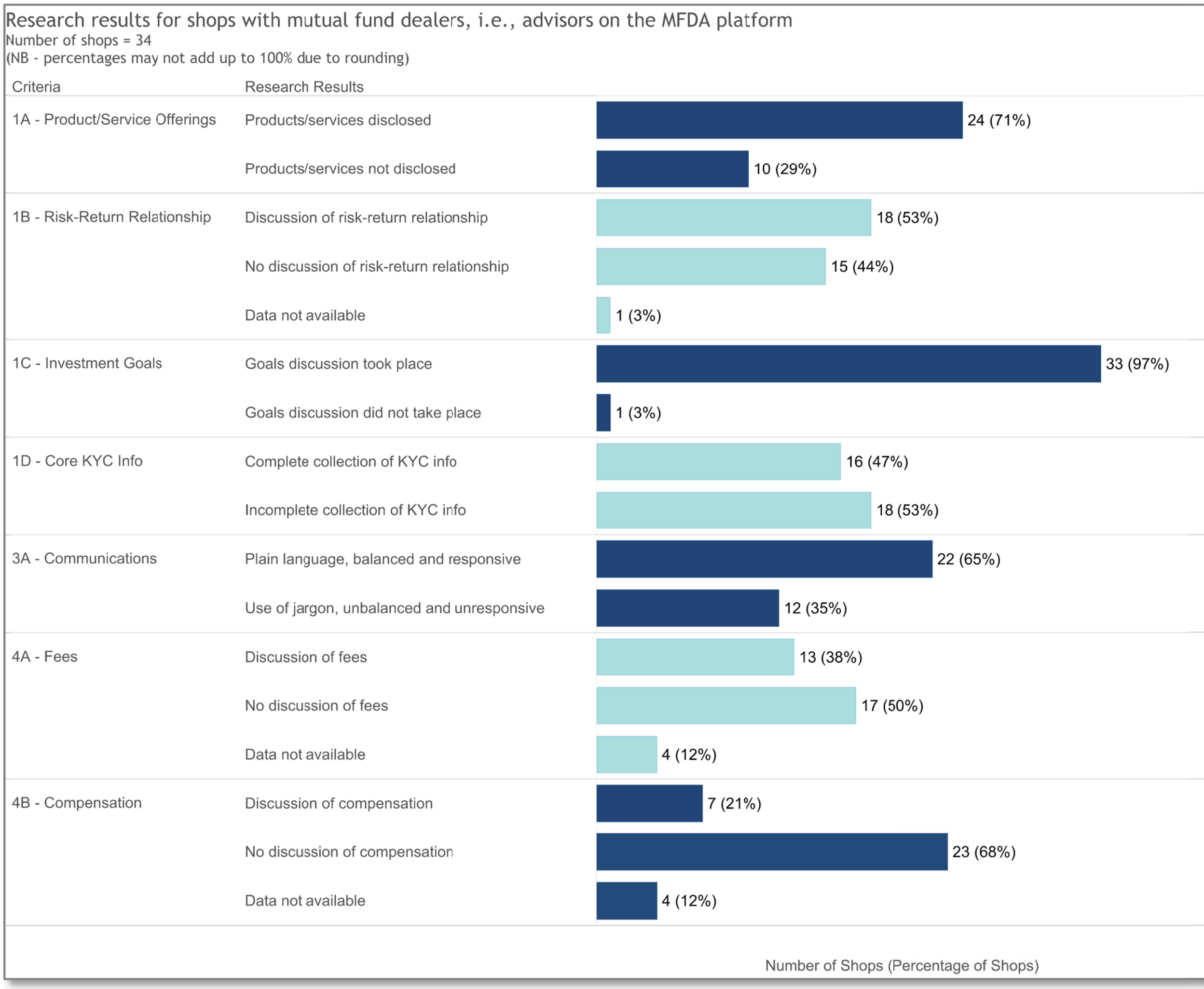
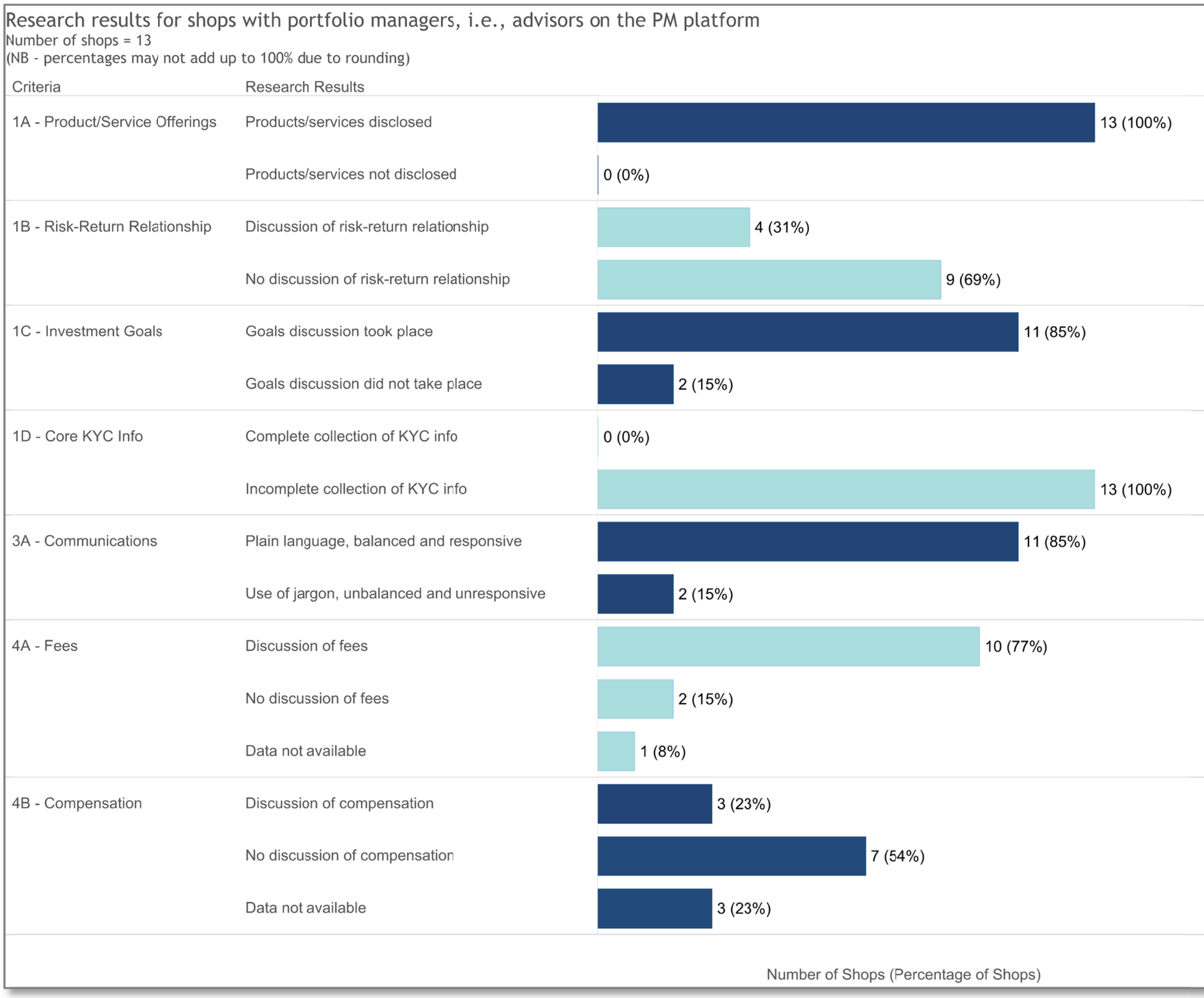


Figure 5: Research results for shops with portfolio managers (PM platform)



Section 1: Collection of personal information/circumstances

Collecting information about individuals and their personal circumstances is central to an advisor's ability to make suitable recommendations. This should involve a discussion of risk tolerance, investment goals and a thorough KYC process to collect critical information.

1.1 Discussion of product/service offerings

As part of the research, shoppers were asked to indicate whether the advisor discussed the products or services that he or she is licensed to sell. Clients should have an understanding of the products and services offered by the advisor in order to determine if the advisor can meet their needs.

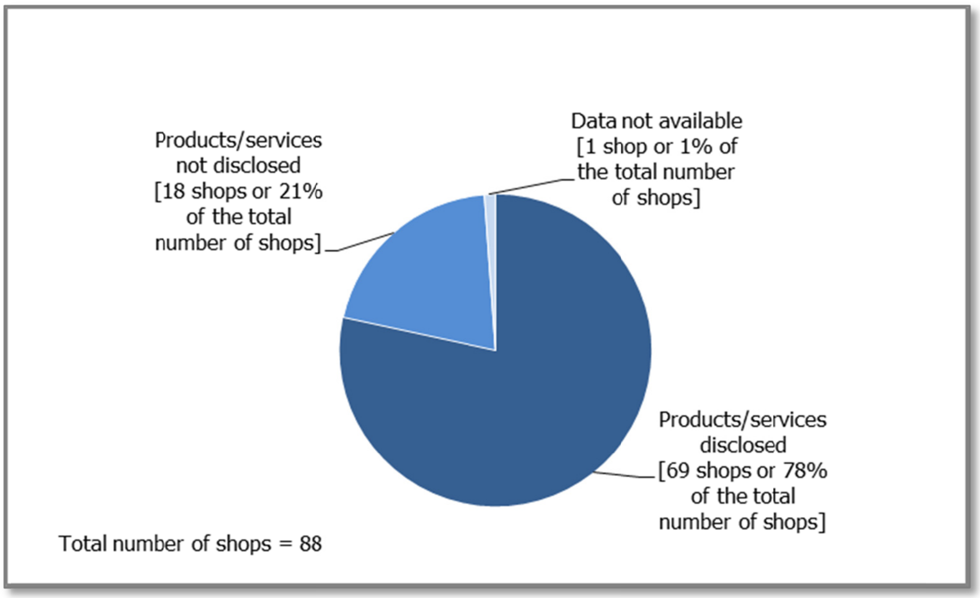
What we asked

- Did the advisor discuss with you the products and/or services that he/she is licensed to sell?
- Did the advisor discuss with you the products and/or services he/she is not licensed to sell?

What we found

Advisors in 78% of shops (69 of 88 shops) discussed products and services as part of the initial conversation with shoppers (Figure 6). Of those who did disclose their offerings, 91% (63) provided a general overview of products and services and 9% (six) provided a detailed explanation, including any limitations on what could be provided (e.g., products the advisor is not registered to sell). In 23% (16) of the shops in which product/service offerings were disclosed, verbal discussions were supplemented by written brochures provided to the shopper.

Figure 6: Discussion of product/service offerings



1.2 Discussion of risk-return relationship

Mystery shoppers were asked whether advisors explained to them the relationship between investment risk and investment return and if so, to describe the conversation. Managing client return expectations can be a challenging aspect of the advisory process. Investors need to understand the fundamental relationship between risk and return and have reasonable expectations regarding potential returns for a given amount of risk.

What we asked

- Did the advisor explain to you the term risk appetite or risk tolerance?
- Did the advisor explain to you the relationship between investment risk and investment return?

What we found

A discussion of the risk-return relationship occurred in 52% (46) of shops assessed (Figure 7). In 67% of these cases (31 of 46 shops), shoppers were provided with a general and balanced explanation of the risk-return relationship and in 33% (15) of these shops, shoppers received a more detailed explanation of the risk-return relationship, typically supported by graphs, which shoppers indicated were helpful.

How did advisors explain the relationship between risk and return? All shops used the same approach, which was a verbal explanation of a widely used definition of the concept: the level of investment risk corresponds with the level of potential return.

The explanation of the risk-return relationship was sometimes included in a discussion of the advisor's investment philosophy, or in a discussion of rates of return for certain investments. It appears that some shoppers found it difficult to discern and understand the differences between these topics - we saw this in 8% (seven of 88) of shops.

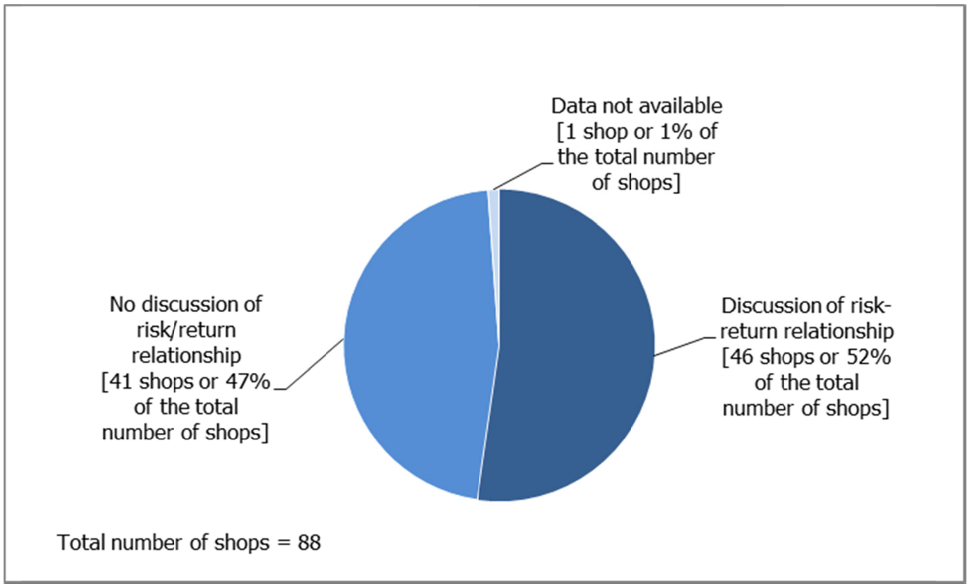
DUALLY LICENSED ADVISORS

It is common that advisors are licensed to sell a variety of financial products other than securities, such as insurance or GICs. Mystery shoppers were asked to seek advice about investments in securities, not other financial products.

In 11 shops, advisors who were dually licensed to sell securities and insurance discussed insurance products with the shoppers. Of those, seven advisors mentioned to the shoppers that they were licensed to sell insurance. In the other four, the advisor did not provide that information.

It is important for investors to know when an advisor is dealing with them as a representative of a securities firm or as a representative of another entity through which the advisor sells other products, such as insurance. This can impact the types of products and services the investor is offered as well as who the investor has recourse to for the advice and recommendations being provided to them.

Figure 7: Discussion of risk-return relationship



1.3 Discussion of personal circumstances and investment goals

Shoppers were asked if advisors inquired about their specific goals and time horizon, including short and long-term objectives, and whether they discussed what could reasonably be achieved from possible investments.

What we asked

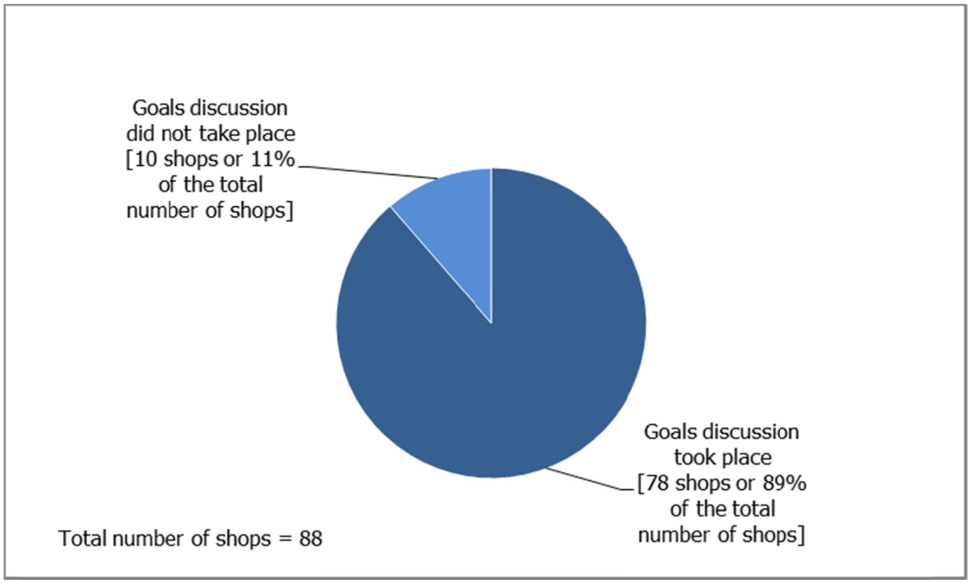
- Did the advisor ask you upfront what you want to do with your money?
- Did the advisor ask you about your investment objectives or life goals for the lump sum of money that you want to invest?
- Did the advisor ask you how long you want to hold on to your investment?

What we found

The topic of investment goals was the most likely topic to be discussed by advisors. Advisors addressed the shoppers' account-specific investment goals in 89% (78) of shops (Figure 8). In the remaining 11% (10) of shops, the advisors did not engage in an adequate discussion of the shoppers' investment goals.

While the majority of advisors did engage in at least a high-level discussion of goals, a smaller subset – six shops, or 7% of all shops – took the process a step further. In these shops the advisors asked detailed questions to gain a thorough understanding of the shoppers' life goals, personal circumstances, risk tolerance and other potential uses for the money to be invested.

Figure 8: Discussion of personal circumstances and investment goals



1.4 Collection of core KYC information

We assessed shoppers' discussions with advisors about their personal and financial circumstances. Specifically we looked at the collection of core KYC information such as investment objectives and goals, income, net worth, investment experience, time horizon, and risk tolerance. We wanted to assess whether these items were covered in the discussion and whether the advisor explained why this information is important for making suitable investment recommendations.

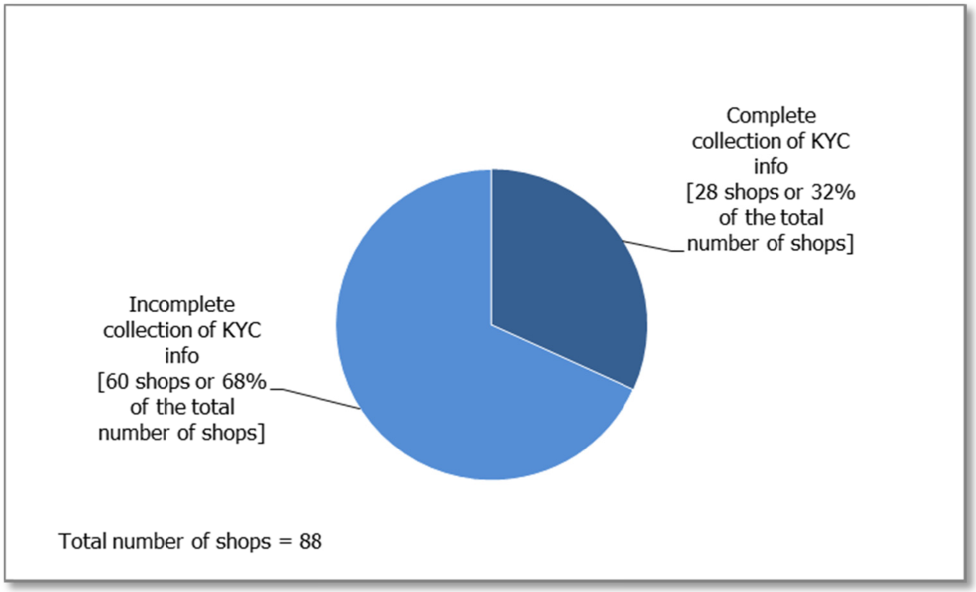
What we asked

- Did the advisor ask you for information on your personal and financial circumstances?
- Did the advisor ask you questions about your assets? Liabilities? Monthly expenses? Tax situation?
- Did the advisor ask you about your experience with investing? Investment goals? Risk appetite?
- Did the advisor explain to you the reasons for asking questions about your personal and financial circumstances?

What we found

In 32% (28) of shops, the advisors collected all core KYC information from shoppers. In 53% (47) of shops, advisors explained the reasons for asking and/or collecting personal and financial information from the shopper. The results show that KYC information was not fully collected in the shops.

Figure 9: Collection of core KYC information



Section 2: Recommendations

The research evaluation excluded the criteria related to any recommendations made in the shops.

Section 3: Communication with shopper

Good communication is an essential part of the relationship between advisors and clients. Unless information is provided in a clear, plain language format, it can be difficult for investors to understand what they are buying and how the product or strategy contributes to their investment objectives. While shoppers' feedback on communication by advisors was subjective, gathering their impressions of the communication style used in the shops was essential given how important good communication is for establishing and maintaining a constructive advisor-investor relationship.

3.1 Communication with shopper

Shoppers were asked several questions about their interaction with advisors in order for us to ascertain whether the advisors' verbal and written communications were in plain language and presented in a balanced and understandable manner, and whether the advisors were responsive to any questions the shoppers may have had. The specific questions asked were guided by our regulatory expectations. As this was a comprehensive assessment based on the shoppers' responses throughout the questionnaire, if a shop lacked one of the communication elements covered, it did not necessarily indicate a poor experience overall.

What we asked

- Did the advisor encourage you to ask questions if you did not understand what was being discussed? Did the advisor answer your questions and explain to you concepts that you did not understand?
- Did the advisor outline his/her expectations of your responsibilities in the advisory process?
- Did you feel you received enough information to make an informed decision?
- Did the advisor show you any marketing material and/or financial performance material for the recommended product(s)/investment strategy/model portfolio? Did he/she explain the information contained in the material presented?
- Did the advisor provide information on the past performance of the recommended or discussed product(s)/investment strategy/model portfolio? Did the advisor make it clear that past performance is not a reliable indicator of future performance?

DIVERSITY OF BUSINESS TITLES

Although we did not explicitly set out to examine the issue of titles used by advisors, it is worth noting the number and variety of business titles used by the advisors in the mystery shop.

From the perspective of an investor, the number and variety of titles encountered when shopping for advice can make the process of choosing an advisor a complex one. The use of certain titles does not always give sufficient information regarding an advisor's specific qualifications, expertise or accreditations. Moreover, titles that differ across and within firms may suggest to a potential investor that advisors offer different types of investment products or services when they do not. The issue is further complicated by the use of certain qualifying adjectives in business titles, such as "senior" or "vice president" that may or may not denote rank within an organization. These titles may lead to an impression that an advisor has greater experience, credentials or tenure than a peer whose title lacks such a qualifier, or that the advisor has a certain position in the firm hierarchy associated with a specific corporate function.

In all, shoppers encountered 48 different business titles in the 88 shops: eight in the EMD platform, 13 in the IIROC platform, 20 in the MFDA platform, and 11 in the PM platform. The sum of the individual platforms exceeds 48 due to duplicate titles used across platforms (e.g., "President" is used by advisors in the EMD and PM platforms). The EMD and PM platforms showed greater diversity in titles than the IIROC and MFDA platforms. The terms "President" and "Vice President" appeared often in the EMD and PM platforms, among other titles. The most common titles among the IIROC shops were "Investment Advisor", "Financial Advisor" and "Financial Planner". Among the MFDA shops, "Financial Advisor" and "Financial Services Representative" were commonly used.

- Did the advisor provide any projections for future performance? Did the advisor explain that forecasts of future performance are not a reliable indicator of actual future performance?
- Did the advisor guarantee your investment returns, that is, how much money you will make from the investment?

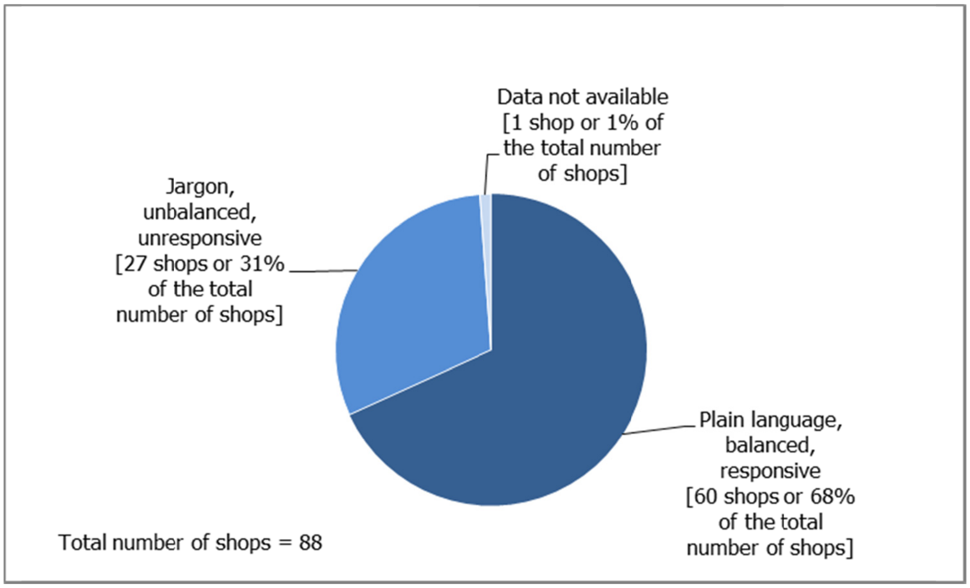
What we found

In 68% of shops (60 of 88), the advisors communicated in plain language and answered the shoppers' follow-up questions in a clear and understandable manner (Figure 10). In cases where past performance was presented, these advisors explained that past performance is not a reliable indicator of future performance. Within this group, a subset of nine advisors (10% of total shops) were more thorough in their communications, using tools, questionnaires or visual aids to explain concepts, or outlining their expectations of the shoppers' engagement in the advisory process (e.g., frequency of meetings to review portfolio, shoppers' responsibility to review account statements).

It should be noted that no cases were found of deliberately misleading communications (e.g., promise of guaranteed future returns). In 31% (27) of shops, however, the shoppers' answers in the post-shop questionnaire indicated that the advisors' communications were not altogether in plain language, balanced and responsive. In some cases advisors did not encourage the shoppers to ask questions or did not answer shoppers' questions clearly. We also found instances where the advisor talked to the shopper about potential investment returns in a manner that was unbalanced, either by focusing on upside returns with little mention of downside potential, or by failing to explain verbally that past performance is not necessarily an indicator of future performance. This positive framing of potential returns was often anchored in a similarly positive perspective on risk, such as emphasizing a "high risk/high return" scenario regardless of the shopper's risk profile. This may have contributed to shoppers' positive impressions of communication they received.

For example, in 67% of the cases (18 of 27) where communications were not in plain language, balanced and responsive, the shopper nonetheless indicated a positive impression of the advisor and/or the advisory experience. While shoppers had positive perceptions of communications that were in plain language and clear, shops often lacked a balanced discussion of limitations, past performance, or projections of future performance. Shoppers appeared to be unaware of this key communication gap.

Figure 10: Communication with shopper



Section 4: Disclosure of fees, charges and compensation

Investors should have an understanding of all applicable fees and charges, including when they apply and how they are calculated, in order for them to make informed investment decisions. We looked at whether and how product and service fees were disclosed and whether shoppers were given a clear explanation of how advisors are compensated.

4.1 Discussion of fees

Advisors were evaluated on whether or not they discussed commissions, related charges, and fees related to investment products and services.

What we asked

- Did the advisor discuss any fees and/or charges associated with the recommended or discussed product(s)/investment strategy? Did the advisor explain to you the purpose of the fees or charges?
- Did the advisor disclose to you any conflicts of interest, either verbally or by drawing your attention to written documents?

What we found

Fees were discussed in 56% (49) of shops (Figure 11). Of those, 63% (31) included a detailed overview of the types of fees.

Advisors did not discuss fees in 34% (30) of shops, while the remaining 10% (nine) of shops could not be evaluated on this factor due to lack of information provided by shoppers.

The discussion varied widely from shop to shop, with some advisors providing ample information and others much less information. For example, one shopper received a thorough explanation of mutual fund fee structures and how they work as well as the management expense ratio (MER) for mutual funds and other administrative fees. However, other shoppers received less information about fees, such as the ongoing management cost of a product or service. Still others received this information as well as information on the fees associated with the purchase of different asset classes (e.g., stocks, bonds, mutual funds) and a breakdown of these fees by asset class. There were a few shops where the

Fees, charges and compensation are key elements of any investment decision and investors need to understand them and how they may impact their investment decision. We were interested to see how shoppers viewed the importance of fees. Mystery shoppers had the opportunity to provide their views on any aspect of their shopping experience, including fees, but only two shoppers provided comments to us on this topic. One shopper did not recall whether there was any mention of fees in his shop, but if such a discussion had taken place, the shopper said the discussion "made no impact" on him. In the second shop, the shopper thought an MER fee of 2% was "pretty low."

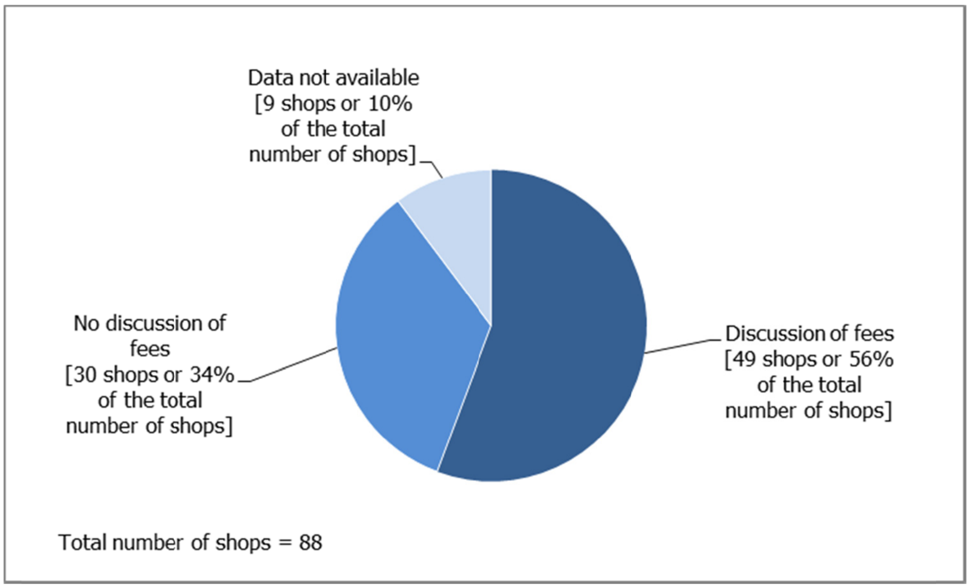
Of the shops in which fees were discussed, the most common fees mentioned were fees to buy a product - discussed in 16% (8) of shops - and ongoing fees to manage an investment - discussed in 59% (29) of shops.

verbal discussion was accompanied by written materials containing fee information, such as a fee schedule or a product information sheet.

The most common fees mentioned were fees to buy a product (discussed in 16% or eight shops) and ongoing fees to manage an investment (discussed in 59% or 29 shops).

In 63% (31 of 49) of cases where fees were discussed, the shopper received information on the exact amount of fees associated with the products/services that were discussed. Two advisors presented this information to the shopper as a dollar amount, with the remainder presenting it as a percentage. There were 11 shops where the shopper received an explanation of the purpose of the fee discussed.

Figure 11: Discussion of fees



4.2 Discussion of advisor compensation

We evaluated how each advisor discussed how he/she is paid. Specifically, we wanted to determine what discussions of advisor compensation were taking place.

What we asked

- Did the advisor explain how he/she would be compensated, that is, how he or she is paid to manage your investment?
- Did the advisor disclose to you any conflicts of interest, either verbally or by drawing your attention to written documents?

CONFLICTS OF INTEREST

Conflicts of interest were not necessarily a factor in all 88 shops but we asked shoppers to tell us whether advisors disclosed any conflicts of interest verbally or in written documents. Shoppers indicated that verbal disclosure about conflicts of interest was provided in connection with the discussion of fees and charges in 4% of cases (2 of 49 shops), and in connection with the discussion of advisor compensation in 9% of cases (2 of 22 shops). One advisor discussed how different purchase options for a mutual fund affected the commission he would receive. In another case, the shopper was told that the advisor would not be paid if the shopper selected one type of fund over another.

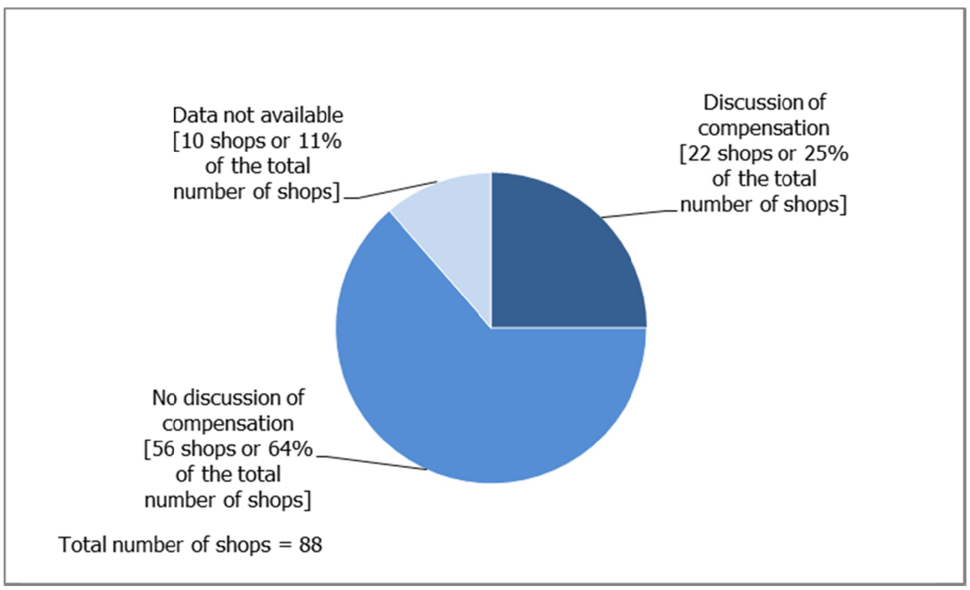
What we found

A discussion of advisor compensation occurred in 25% (22) of shops, making this one of the least likely topics to be discussed between advisors and shoppers (Figure 12). None of the shoppers received a detailed explanation of how the advisor and the advisor's firm are paid. In 64% (56) of shops advisor compensation was not discussed, and in 11% (10) of shops this element could not be evaluated due to insufficient data.

Where there was disclosure of advisor compensation, advisors discussed their firm's compensation model - they were given a salary, their compensation came from management expense ratios (MERs), they or their firm were paid through administrative fees or commissions.

Overall, the shop results suggest that advisors are not likely to have a discussion on compensation until a specific product is recommended or an account is opened. The shops also show that advisors working as salaried employees of financial institutions do not generally explain how they are compensated.

Figure 12: Discussion of advisor compensation



Part II

Compliance results

The research results presented above indicate what shoppers were told and what they experienced. The mystery shop results were also assessed against the evaluation benchmarks developed by the OSC, IIROC and MFDA, with input from the external advisory panels. We wanted to identify whether the advisory practices were best practices, compliant practices or non-compliant practices. These assessments were made by compliance experts from the OSC, IIROC and MFDA who were responsible for reviewing the shops for each platform of registrants under their respective oversight.

The evaluation benchmarks were applied to the shop results and were defined as:

- **Best practices** – practices that represent an ideal way to meet the regulatory expectations at a particular stage in the advisory process. There may be a number of ways to achieve a best practices rating.
- **Compliant practices** – practices that meet regulatory expectations at a particular stage in the advisory process. There may be a number of ways to achieve a compliant practices rating.
- **Non-compliant practices** – practices that do not meet regulatory expectations at a particular stage in the advisory process. A non-compliant rating could occur where no action was taken or the actions taken were insufficient, or if serious misconduct was identified.

In some cases we could not assess an element of a shop because either we did not have sufficient data, or the element was not applicable in the particular circumstance.

When we made these compliance assessments we took into account additional factors, such as:

- All but one were single meetings and the advice process can often take more than one meeting to be completed
- No accounts were opened
- No funds were invested
- In 73% (64 of 88) of shops, the shopper and advisor did not reach the stage of a product or specific recommendation being made

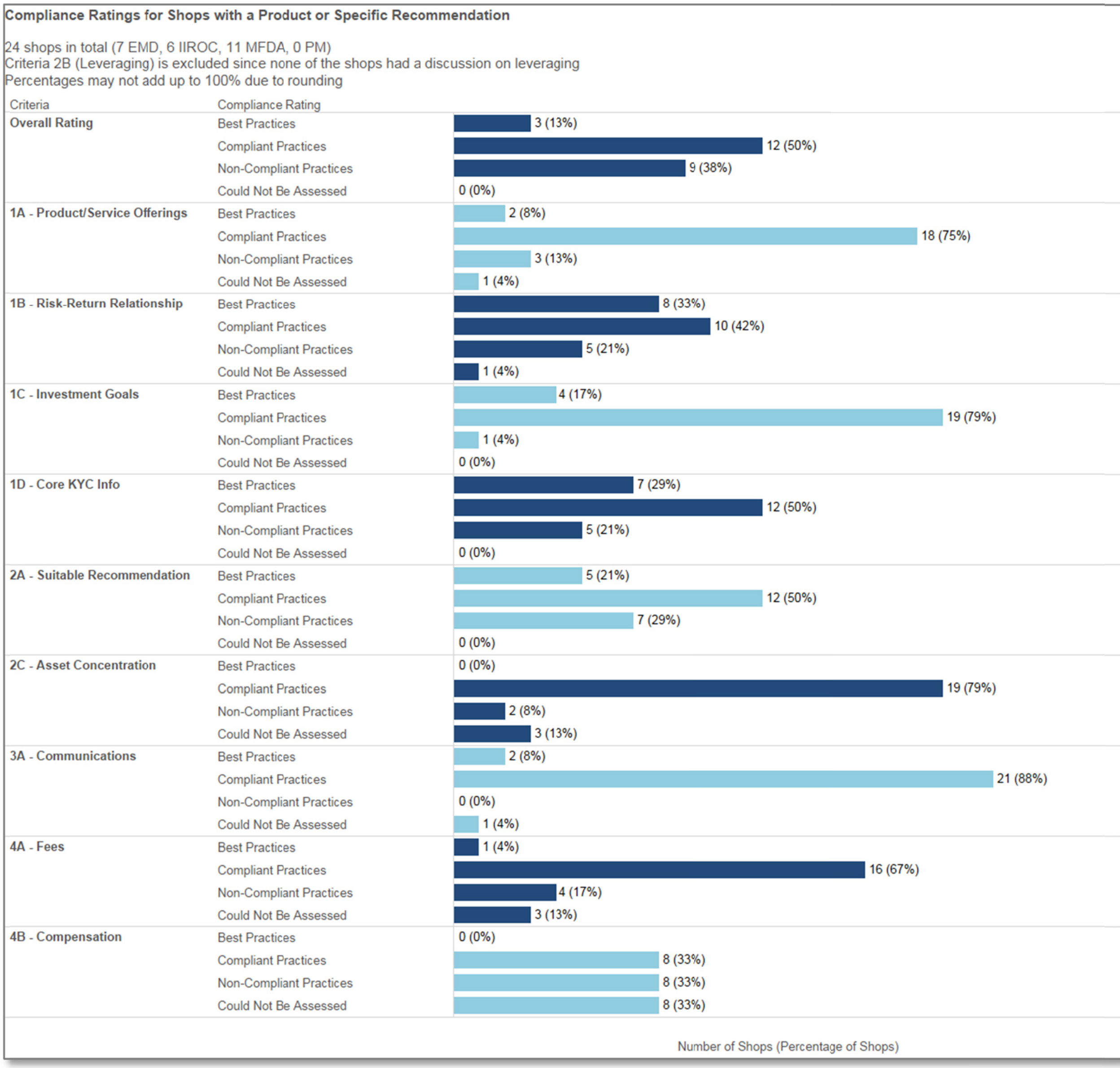
These factors are the reasons why the research results and the results of our compliance assessments differ.

We assessed the compliance results in two groups. The first group includes the 24 shops that progressed to the stage where a product or specific recommendation was made. Here we were able to do a full compliance assessment on all elements of those shops. We should note that the results for the 24 shops offer valuable insights but are not necessarily representative of the larger advisor population. The second group includes the 64 shops that did not proceed to a recommendation and where only general advice or no advice was given.

Results for shops where a product or specific recommendation was made

The group of 24 shops which proceeded to a product or specific recommendation included seven EMD shops, six IIROC shops and 11 MFDA shops. No PM shops reached the point of a recommendation. The results for the 24 shops are set out below, in aggregate and for each applicable platform:

Figure 13: Compliance ratings for shops with a product or specific recommendation



Highlights

Most advisors explained to shoppers the products or services they could offer relatively consistently, and largely in a manner that met our expectations for compliance. Most shops also included a discussion of the risk-return relationship, and in eight cases (33%) our expectations were exceeded with advisors using visual aids and graphs to explain the relationship to the shopper. The discussion of risk-return was not disclosed or discussed in five shops (21%). This discussion should have occurred in shops where a recommendation was made.

All but one of the 24 shops (96%) demonstrated compliant or best practices in their discussions of shoppers' personal circumstances and investment goals.

In seven shops (29%) the KYC collection process exceeded our expectations and in 12 cases (50%) the KYC collection process met our expectations. However, in five cases (21%) where a recommendation was given it was premised on an incomplete or inadequate KYC collection process.

In 21 of the 24 shops a product was recommended. In the remaining three shops, the shoppers received a specific recommendation to seek advice elsewhere, or were advised on how to allocate their assets in different investments or through different accounts. In the 21 shops where a product was recommended, 86% (18 of 21) of those recommendations were suitable. The remaining 14% (3 of 21) of recommendations were unsuitable due to asset concentration issues.

In 17 of the 24 shops (71%) advisors complied with KYC, KYP and suitability requirements. In the remaining shops (29% or 7 of 24 shops) the recommendations were premised on an incomplete or inadequate KYC collection process – typically because the advisor failed to adequately assess the shopper's risk tolerance or because the advisor did not discuss the risks associated with the recommended product or with asset concentration before making their recommendation.

In cases where advisors recommended that shoppers purchase mutual funds, stand-alone funds were recommended in 15 instances (41%) and fund of funds were recommended in 22 instances (59%). Some shops included multiple mutual fund recommendations. On the exempt market dealer platform, four of the recommendations (57%) were in real estate-related products.

Communication with the shopper was assessed as compliant in the majority of shops (23 of 24 shops, or 96%). Shoppers largely reported that they were satisfied with the communication received. No misrepresentations or erroneous statements were identified in the shoppers' responses.

In most shops (17 of 24 or 71%), the advisor discussed product fees in a compliant manner, with one advisor that employed best practices by providing a thorough and detailed explanation of product fees.

In the cases where a specific product was recommended, eight shoppers (33%) received a compliant description of advisor compensation. In another eight shops (33%), the description of advisor compensation was non-compliant. The remaining eight shops (33%) could not be assessed because there was no expectation for such a discussion to occur, as the advisors were salaried employees of financial institutions.

Overall rating

In the 24 shops that reached the stage of a product or specific recommendation, we derived an overall rating based on whether or not the shop met all of the following critical criteria as we would expect from a proper assessment of suitability:

- The advisor asks about the shopper's circumstances and investment goals
- The advisor obtains sufficient and accurate information about the shopper's personal and financial circumstances (i.e. core KYC information)
- The advisor makes a suitable recommendation that meets the shopper's relevant personal circumstances
- If a leveraging strategy is recommended, the advisor ensures the strategy is suitable for the shopper

- The advisor has a discussion about commissions, related charges and fee structures that may apply
- If a significant amount of shopper assets are to be invested in a non-diversified product, exempt product or a particular industry/sector, the advisor has a discussion about asset concentration and the potential risk of having too much money concentrated in these investments

If a shop met expectations on all of these critical criteria, it was rated compliant. If it did not meet expectations for any single element, it was rated non-compliant, even in cases where a product or specific recommendation was suitable.

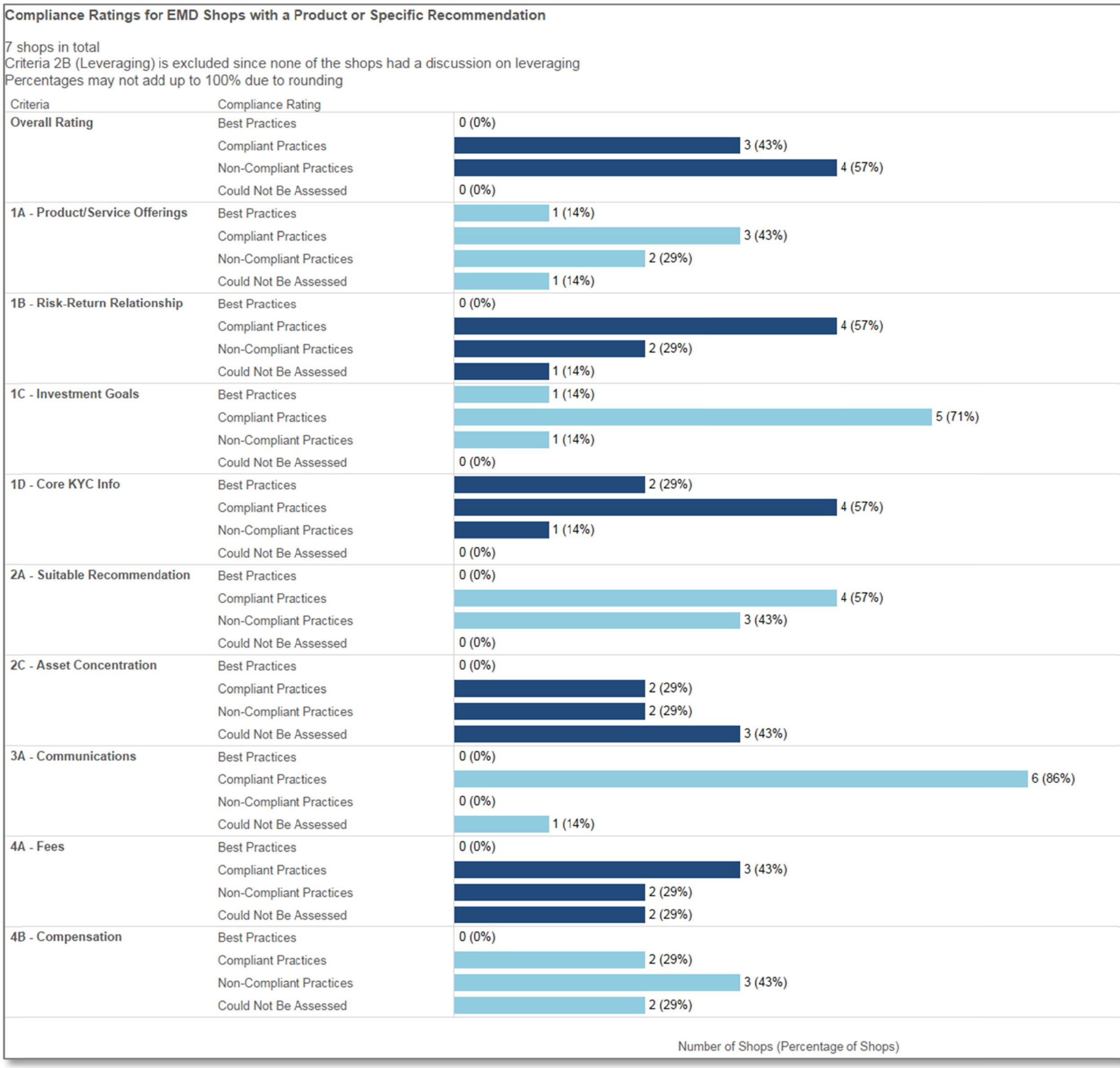
In total, 15 of the 24 shops (63%) where a recommendation was made met all of our expectations relating to the critical criteria set out above – in 3 shops (13%), the advisor exceeded our expectations on many of the criteria and in twelve shops (50%) they met our expectations and received a compliant rating (Figure 13).

The remaining nine shops (38%) were non-compliant. This was the case even though the recommendations made may have been suitable. This result reflects that the process leading to the recommendation was deficient in at least one critical criteria, such as disclosure of fees and charges or discussion of risk tolerance.

Exempt Market Dealers

In the EMD platform there were 11 shops conducted, seven of which progressed to a product or specific recommendation. The seven shops included two in which the specific advice was that the shopper should seek the services of another advisor/firm more suited to the shopper's circumstances (i.e. the shopper was not an accredited investor).[11] These two shops were not assessed on several criteria, because although in some cases it was evident that normal expectations for compliance were not met, in the circumstances the advisors acted appropriately by turning away shoppers who were not accredited investors.

Figure 14: Compliance ratings for EMD shops with a product or specific recommendation



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[11] Accredited Investor – The most common ways for individuals to qualify as an accredited investor and allow them to participate in the exempt market include: (a) annual income of $200,000 for one person, or $300,000 combined for a couple, or; (b) net financial assets (including cash, securities, and other financial deposits but not real estate or physical property) totaling at least $1 million, or; (c) total assets of at least $5 million. These were the applicable requirements when the shops were conducted.

Overall rating

Three shops (43%) received an overall compliant rating and the remaining four shops (57%) were rated non-compliant due to unsuitable recommendations or failure to collect sufficient core KYC information.

Section 1: Collection of personal information/circumstances

1.1 Discussion of product/service offerings

In one shop (14%), the advisor demonstrated best practices by engaging in a thorough explanation of what they could and could not sell. In three shops (43%), the advisors discussed more generally their product/service offerings. Two shops (29%) were rated non-compliant. The remaining shop (14%) could not be rated because shortly into the meeting, the advisor suggested the shopper seek advice elsewhere.

1.2 Discussion of risk-return relationship

Four shops (57%) included a compliant discussion of the risk-return relationship. Two shops (29%) were non-compliant because there was either no discussion of risk or only a very high level mention of it. The remaining shop (14%) was not assessed on this factor because the advisor directed the shopper to another firm.

1.3 Discussion of personal circumstances and investment goals

In discussions of shopper circumstances and goals, one shop (14%) employed best practices by undertaking a comprehensive collection of KYC information. Another five shops (71%) displayed compliant practices. One shop (14%) was rated non-compliant.

1.4 Collection of core KYC information

On the collection of core KYC information, best practices were demonstrated in two shops (29%), including one instance where following a thorough KYC assessment the advisor recommended that the shopper seek the services of another firm. We found compliant practices in four cases (57%). The remaining shop (14%) was rated non-compliant due to the minimal collection of KYC information.

Section 2: Recommendations

2.1 Suitability of recommendation

Suitable recommendations were found in four shops (57%), including the two shops where the shoppers were counselled to seek advice elsewhere. Non-compliance was observed in the remaining three cases (43%) where the recommendations were not suitable. Instances of non-compliance included a lack of discussion of product and asset concentration risks, potential conflicts of interest and a failure to explain how the recommendation met the shopper’s goals.

2.2 Recommendation of leveraging strategy

None of the recommendations involved leveraging strategies.

2.3 Discussion of asset concentration

Of the seven EMD shops which progressed to a product or specific recommendation, two shops (29%) received a compliant rating because given the shoppers’ profiles, the recommendations did not pose a risk of asset concentration. Non-compliance was found in two shops (29%) where the recommendations would have resulted in a high concentration of the shoppers’ assets and the advisors failed to discuss the associated risks. The remaining three shops (73%) could not be assessed. In one case we did not have the data to complete the assessment, and in the other two shops the specific advice given was to employ the services of another firm.

Section 3: Communication with shopper

3.1 Communication with shopper

The majority of shops (six, or 86%) were compliant with respect to clarity of communication. The advisors encouraged the shoppers to ask questions and they explained information in a way that shoppers indicated was adequate. This element could not be assessed in one of the shops (14%) where the advisor suggested that the shopper seek advice elsewhere.

Section 4: Disclosure of fees, charges and compensation

4.1 Discussion of product fees

The discussion of fees was compliant in three shops (43%). There was no mention of fees in two shops (29%), which were rated non-compliant. This factor could not be assessed in the remaining two cases (29%) where the advisors recommended the shopper seek advice elsewhere.

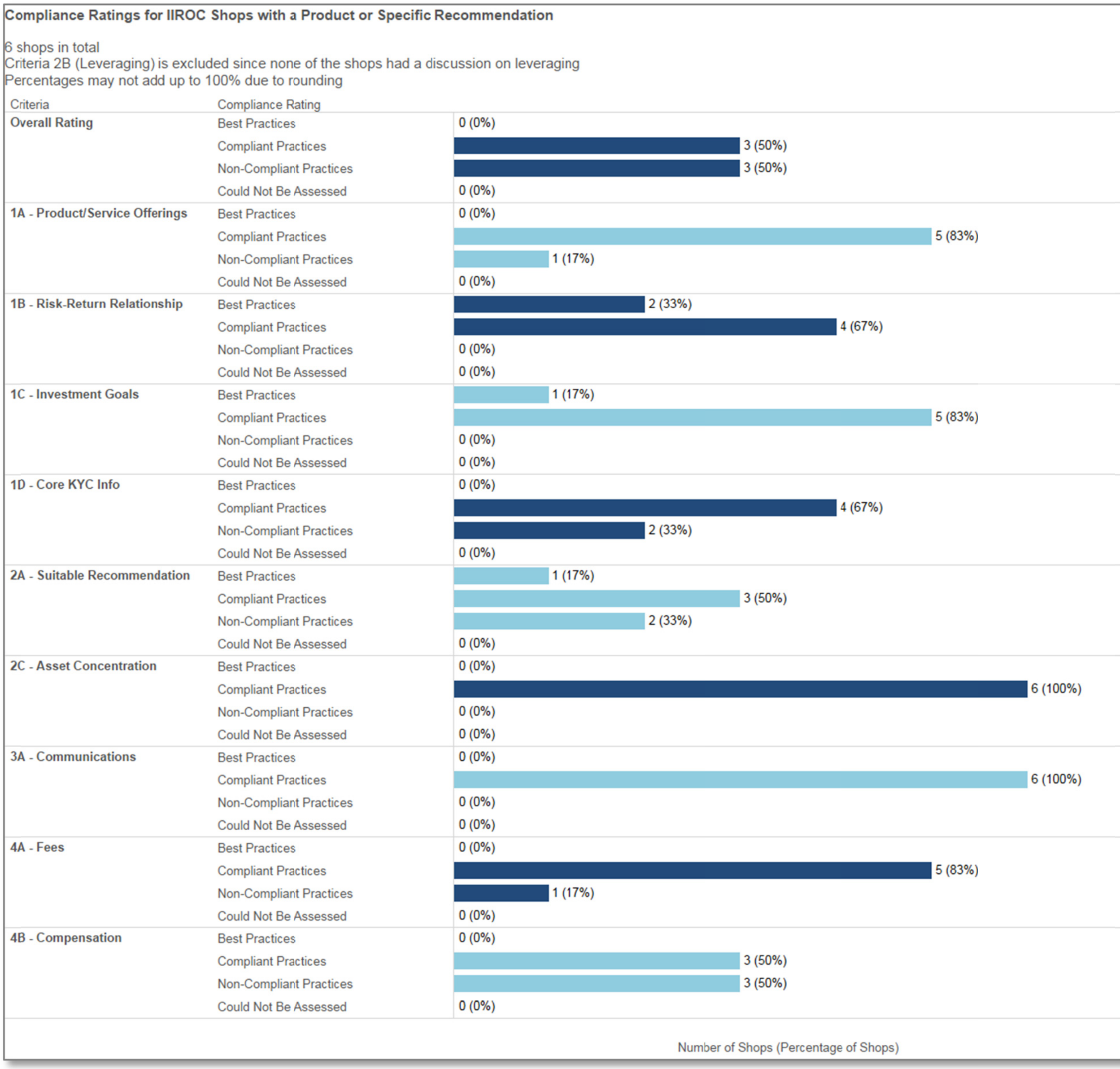
4.2 Discussion of advisor compensation

Discussions of compensation occurred in two shops (29%), which were considered compliant. In another three shops (43%) there was no discussion of compensation and as such these shops were rated non-compliant. The remaining two shops (29%) could not be assessed on this factor because the advice the shoppers received was to seek the services of another advisor/firm.

Investment Dealers

In the IIROC platform there were 30 shops conducted, six of which progressed to a product or specific recommendation.

Figure 15: Compliance ratings for IIROC shops with a product or specific recommendation



Overall rating

Three of six shops (50%) received an overall compliant rating and the other half (50%) received a non-compliant rating. Non-compliance resulted from advisors failing to inquire about the shoppers' risk tolerance prior to making a recommendation or failing to discuss fees and commissions.

Section 1: Collection of personal information/circumstances

1.1 Discussion of product/service offerings

Compliant practices were observed in the discussion of service/product offerings in five shops (83%). One shop (17%) was assigned a non-compliant rating because the advisor did not discuss products and services offered.

1.2 Discussion of risk-return relationship

The risk-return relationship was presented in a compliant manner in all six shops (100%). In two of these shops (33%) we saw best practices. The advisors went beyond a simple verbal explanation of the concept of risk-return and used visual aids, such as charts and graphs or specific examples of the performance of various sample portfolios over time, in order to help the shopper understand the concepts of risk and return.

1.3 Discussion of personal circumstances and investment goals

All shops were compliant in this area and one shop (17%) demonstrated best practices. In that shop, the advisor engaged in a detailed discussion of goals, asking probing questions regarding the shopper's investment objectives and lifestyle plans for retirement.

1.4 Collection of core KYC information

Advisors obtained adequate information about the shoppers' objectives, goals, financial situation, time horizon and risk appetite in four shops (67%). In two shops (33%) this process was not done in a compliant manner as the advisors neglected to inquire about the shoppers' risk tolerance.

Section 2: Recommendations

2.1 Suitability of recommendation

Suitable recommendations were made in four of the six shops (67%). Three of these four shops were assessed as compliant, meaning the recommendation was suitable and the steps taken to make the recommendation were compliant. In the fourth case the advisor exhibited best practices over the course of two meetings with the shopper. A non-compliant rating was assigned in the remaining two shops (33%). In one case the advisor did not adequately assess the shopper's risk tolerance, and in another case the shopper was advised that the advisor simply endorsed the same investment that she recommends to all of her clients regardless of their specific circumstances.

2.2 Recommendation of leveraging strategy

There were no shops in which a leveraging strategy was discussed.

2.3 Discussion of asset concentration

Asset concentration was not deemed to be a concern in any of the six shops, given the diversified nature of the recommended products. As such, all shops received a compliant rating on this element.

Section 3: Communication with shopper

3.1 Communication with shopper

All shops received a compliant rating on this criterion, with shoppers indicating that the advisor communicated clearly and answered questions proficiently. No advisor exhibited best practices.

Section 4: Disclosure of fees, charges and compensation

4.1 Discussion of product fees

A general overview of fees was provided in five shops (83%), which was adequate in cases where an account had not been opened nor a purchase made. One shop (17%) was rated non-compliant because fees and commissions were not discussed at all.

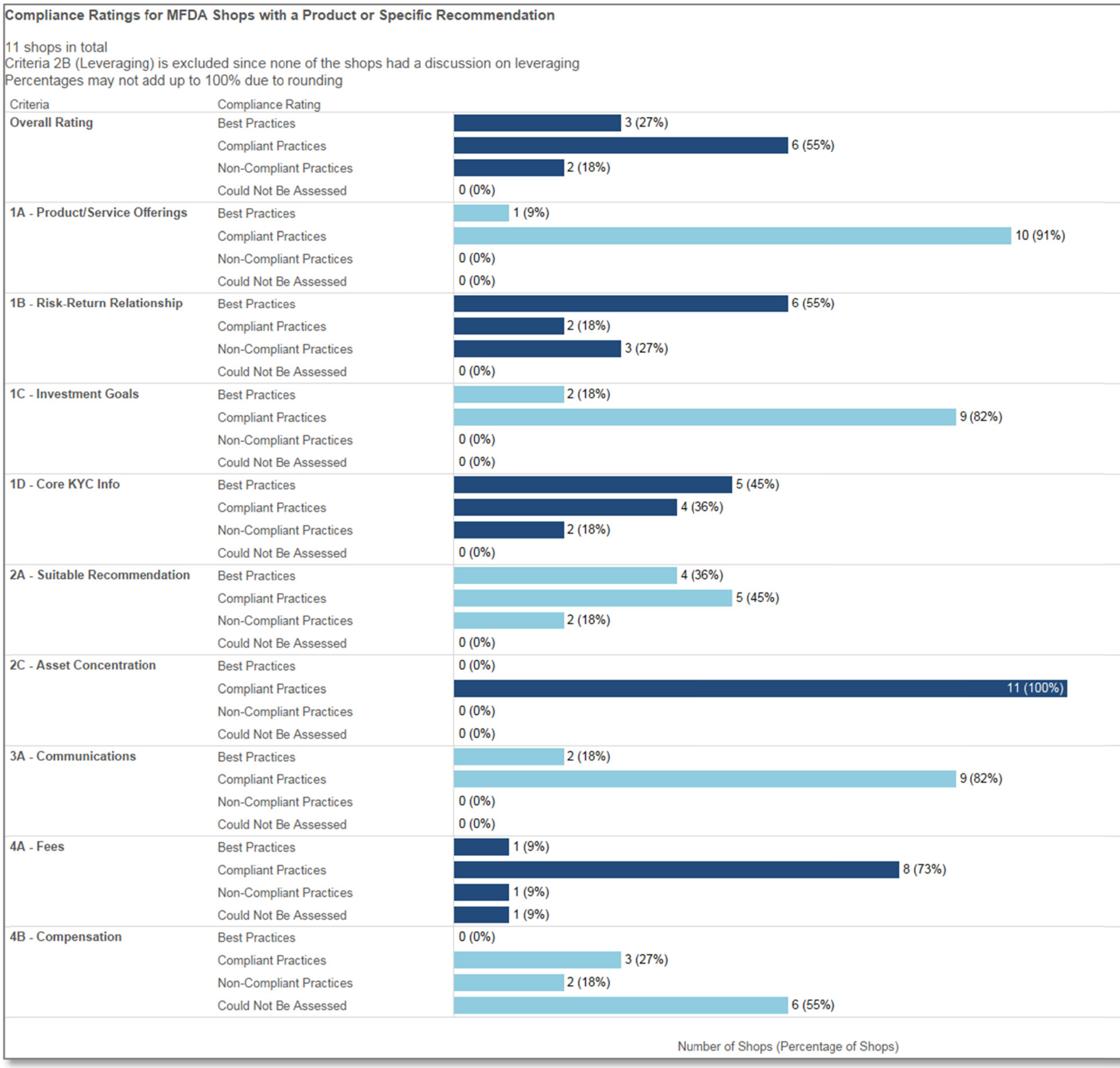
4.2 Discussion of advisor compensation

A compliant discussion of advisor compensation took place in three shops (50%). In three shops (50%) this discussion did not occur.

Mutual Fund Dealers

In the MFDA platform there were 34 shops conducted, 11 of which progressed to a product or specific recommendation.

Figure 16: Compliance ratings for MFDA shops with a product or specific recommendation



Overall rating

Three shops (27%) achieved an overall best practices rating by displaying best practices across several key elements. Another six shops (55%) received an overall compliant rating because the advisors made suitable recommendations based on complete KYC assessments and discussed applicable fees. The remaining two shops (18%) received an overall non-compliant rating by failing to exhibit compliant practices in at least one of the six key criteria of the evaluation benchmarks.

Section 1: Collection of personal information/circumstances

1.1 Discussion of product/service offerings

Advisors discussed what products/services they were registered to provide in all MFDA shops that progressed to a product or specific recommendation. In one shop (9%), the advisor exhibited best practices by discussing the product/service offering in detail as well as the specific products that he/she could not offer clients. The remaining 10 shops (91%) were rated compliant.

1.2 Discussion of risk-return relationship

Best practices were found in six shops (55%). In these shops advisors defined the risk-return relationship and also used visual tools such as graphs, diagrams and charts to explain this concept. In two shops (18%), advisors gave a verbal explanation of the risk-return relationship. In the remaining three shops (27%) the shopper indicated that no discussion regarding the risk-return relationship took place.

1.3 Discussion of personal circumstances and investment goals

The discussion of shopper circumstances and goals was an area where advisors were fully compliant. Best practices were observed in two shops (18%), where advisors engaged in a detailed discussion of goals and follow-up questions about shoppers' circumstances and investment objectives. The advisors in the other nine shops (82%) did ask shoppers about their personal circumstances and investment goals, but at a less detailed level.

1.4 Collection of core KYC information

In five shops (45%) advisors employed best practices, including by utilizing investor questionnaires to explain KYC concepts, collecting information for each of the KYC components and reviewing the investor profile with shoppers. Another four shops (36%) were rated compliant as information was collected on each of the core KYC components. The remaining two shops (18%) were rated non-compliant as the advisors did not properly assess the shoppers' risk tolerance, but instead appeared to have made assumptions based on the shoppers' other KYC information. A proper KYC process requires each core KYC component to be assessed individually and also assessed in relation to the other KYC components. Making an assumption in the absence of an objective assessment may lead to unsuitable advice.

Section 2: Recommendations

2.1 Suitability of recommendation

Advisors in four shops (36%) employed best practices in making a suitable investment recommendation based on the shoppers' personal and financial circumstances and investment goals. These advisors provided details as to why the recommendation met the shoppers' goals and objectives. Another five shops (45%) were rated compliant because the recommendations made were suitable, though the discussion of how the recommendations met the shoppers' particular circumstances and goals was less detailed. Non-compliance was found in the remaining two shops (18%) as the advisors did not properly assess the shoppers' risk tolerance.

2.2 Recommendation of leveraging strategy

Leveraging was not recommended in any of the shops that progressed to a product or specific recommendation.

2.3 Discussion of asset concentration

Asset concentration was an area where advisors were fully compliant. Most of the recommended products/strategies involved balanced funds or portfolios and none would have resulted in a concentrated portfolio for the shopper.

Section 3: Communication with shopper

3.1 Communication with shopper

In two shops (18%), advisors demonstrated best practices when it came to communicating with shoppers. These advisors used tools and visual aids to communicate and engage with shoppers. The advisors also encouraged shoppers to ask questions and explained to shoppers matters that the shoppers did not understand. The remaining nine shops (82%) were rated compliant, as the shoppers noted no concerns regarding the advisors' communications or explanations.

Section 4: Disclosure of fees, charges and compensation

4.1 Discussion of product fees

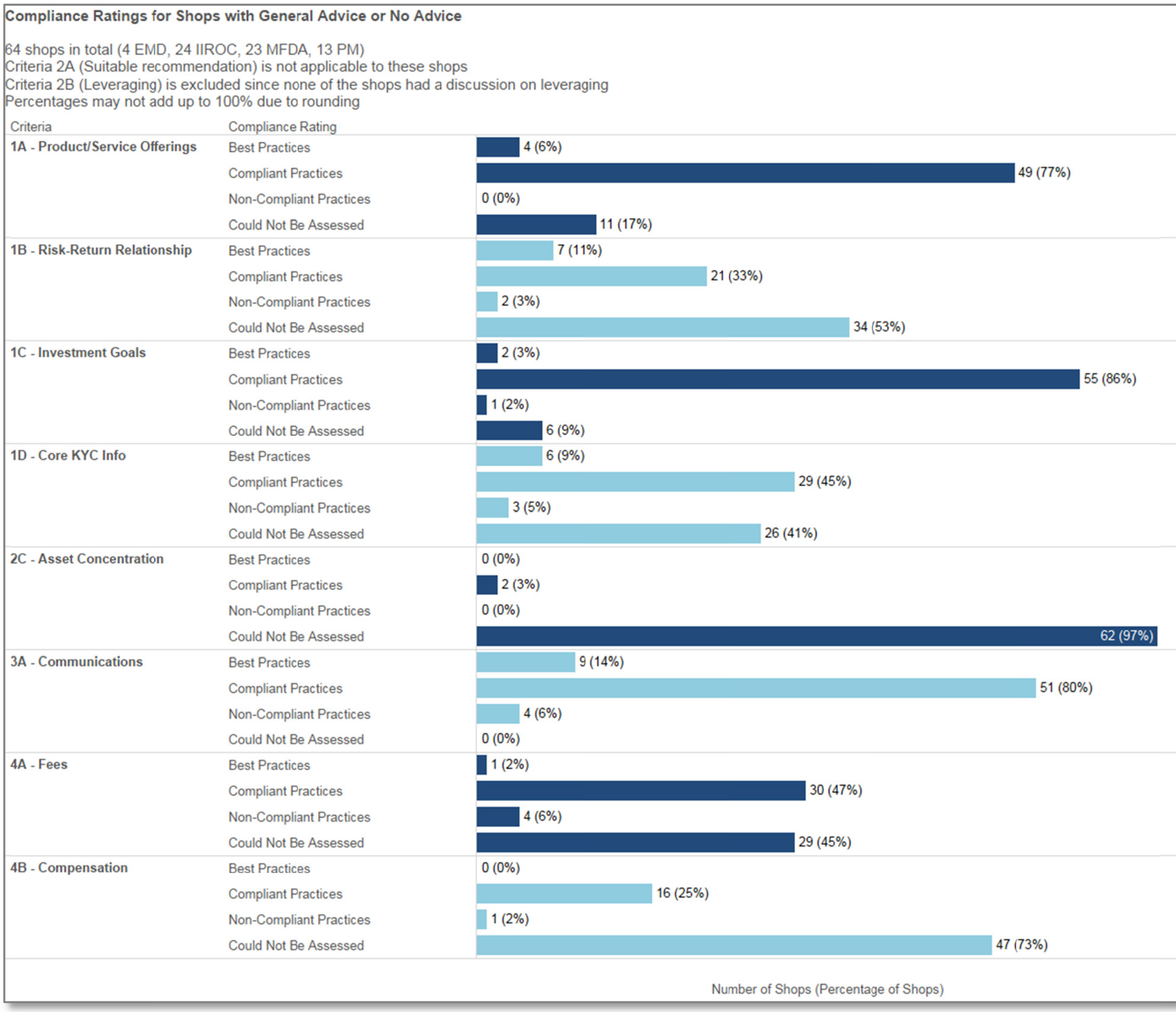
Eight shops (73%) involved a compliant discussion of fees. One shop (9%) received a best practices rating because the advisor also provided an explanation of applicable fees and how they are structured. Non-compliance was found in one shop (9%) where no discussion of fees took place. The final shop (9%) could not be assessed on this element because the shopper did not respond to the question regarding fees discussion in the post-shop questionnaire.

4.2 Discussion of advisor compensation

MFDA advisors are either salaried employees or earn sales commissions. In practice, advisors who are salaried employees typically do not discuss their compensation with clients because their compensation is not directly tied to a recommendation. In cases where the advisor was a salaried employee (six shops, or 55%), the shop could not be assessed on this element. A compliant discussion of advisor compensation was observed in three shops (27%). Two shops (18%) were rated non-compliant because the advisors in these shops are compensated from commissions on sales and would therefore be expected to discuss compensation but did not do so.

Results for shops with general advice or no advice

Figure 17: Compliance ratings for shops with general advice or no advice



Highlights

In the 64 shops in which general advice or no advice was given, we evaluated the criteria for which data were available to be analyzed. No overall ratings were assigned for these shops. It was much more challenging to assess the compliance of these shops as each differed in terms of how far the process progressed and the amount of data available to be assessed. We had to base our assessments only on the data that were available to us, not on supposition about what might have occurred had the shop progressed further.

A majority of advisors (53 of 64 shops, or 83%) explained to shoppers the products and/or services they could offer in all types of shops relatively consistently and in a compliant manner. This included four advisors (6%) that demonstrated best practices by explaining what they cannot sell or offer.

The explanation of the risk-return relationship was an element that was assessed in 30 of the 64 shops (47%). In those shops that could be assessed, the explanation was compliant in 21 shops (33%), with best practices in seven shops (11%) and two shops (3%) exhibiting non-compliant practices. These compliance results suggest that the discussion of the risk-return relationship is likely to be linked to the opening of an account or making an investment.

The majority of shops (58, or 91%) conducted a goals discussion with the shoppers and most did so in a compliant manner. Only one shop (2%) was rated non-compliant. When it came to collection of core KYC information, however, we assessed this element in 38 shops (59%). While we primarily saw compliant practices in the shops we assessed, we found best practices in six shops (9%) and non-compliant practices in three (5%). As with the risk-return discussion, these compliance results suggest that the collection of core KYC may be more likely to occur when an account is opened or an investment is to be made.

Since no recommendations were made we could not assess suitability for these shops. In terms of the asset concentration element, as noted above, this was a factor assessed only in EMD and PM shops and in this group of shops where no recommendations were made, it was a factor in only two EMD shops. In both of these cases the advisor discussed it in a compliant manner with the shopper.

Communication with the shoppers was largely assessed as compliant. Shoppers responded positively that advisors used plain language and explained things clearly. There were examples of best practices in this area with nine advisors (14%) taking further steps such as using visual aids and other tools to supplement their discussions with shoppers. The four shops (6%) assessed as non-compliant involved discussions of performance results or projections where the advisor did not explain that past performance is not an indicator of future performance.

Product and service fees were assessed in 35 of 64 shops (55%). In 31 of those shops (49%) the discussions were compliant, including one instance (2%) of best practices. In four shops (6%), the discussion did not meet our compliance expectations. Advisor compensation was assessed in 17 of 64 shops (27%), and all but one shop (2%) were assessed as compliant. No best practices were observed in this area.

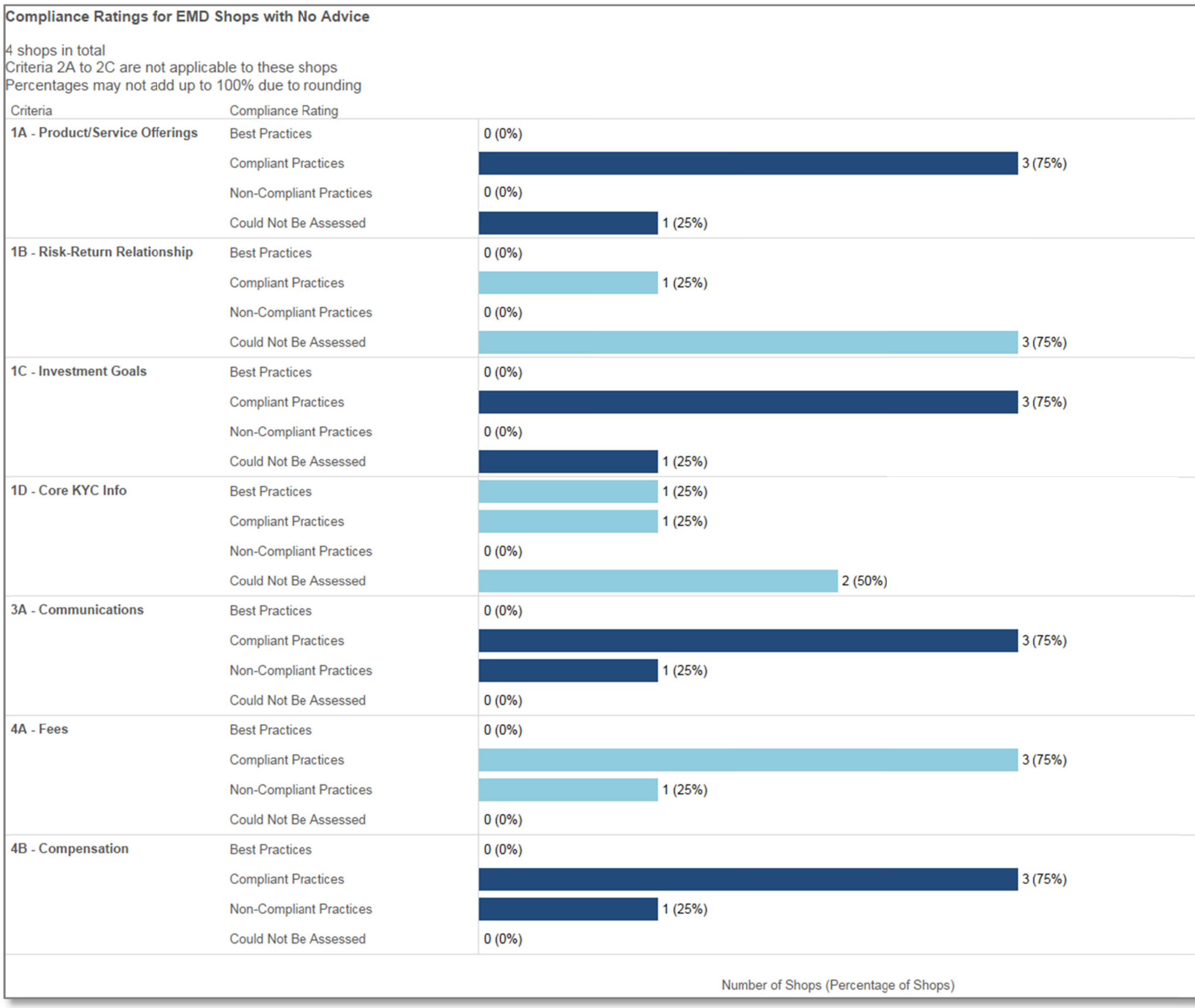
Together, a large number of shops where general advice or no advice was given could not be assessed with respect to the risk-return discussion, collection of core KYC, product/service fees and advisor compensation. These results reflect that advisors generally view their obligation to cover these fundamental elements later in the advice process.

Encouragingly, the data also shows that some advisors do a thorough job discussing and explaining these important topics even if an account is not opened or an investment made.

Platform results for shops with general advice or no advice

Exempt Market Dealers

Figure 18: Compliance ratings for EMD shops with no advice



Section 1: Collection of personal information/circumstances

We were only able assess two out of the four shops in which no recommendation was made with respect to the collection of personal information. Both of the firms were compliant in collecting KYC information from the shoppers for a first meeting with them.

Section 2: Recommendations

Criteria 2A, 2B and 2C were not applicable to these shops as no product or specific recommendations were made.

Section 3: Communication with shoppers

In the shops that did not proceed to a recommendation, there was one instance identified by a shopper in which the advisor discussed investment performance returns but there did not appear to be any explanation that the returns may vary from what is projected. We would expect that a balanced discussion with respect to performance returns takes place between a registrant and their clients. This includes having a clear and meaningful discussion regarding the assumptions used in calculating the expected performance returns.

Section 4: Disclosure of fees, charges and compensation

We expect that a balanced discussion occurs between the advisor and the shopper when product features are discussed, even when no product recommendation is made. This would include a discussion regarding the fees associated with a product. We noted that in three out of the four shops in which no recommendation was made, the advisor had an appropriate discussion with the shopper with respect to fees or compensation.

Investment Dealers

Many of the IIROC shops took the form of an introductory meeting where the discussion centered on whether there was a “fit” between the advisor and the potential client, the products and services available, as well as a general discussion of investment strategies and philosophies. This type of preliminary client/advisor dialogue would generally be consistent with the typical client on-boarding process within IIROC firms. In 19 of these shops the discussion progressed to some level of general investment advice, ranging from high level advice regarding debt reduction and tax planning, to the presentation of alternative general investment strategies that stopped short of a being a specific product recommendation. In the remaining five shops no investment advice was provided. If a particular criterion was touched on in the course of the meeting it would be evaluated against the evaluation benchmarks as outlined in Appendix E. The fact that a topic may not have been discussed did not necessarily result in a non-compliant rating. Rather, the absence of a discussion pertaining to a particular topic was considered within the context of the overall meeting. For example, if the discussion did not progress to the point where specific investment alternatives were discussed then, in IIROC’s view, it would generally be premature to discuss fees. The criterion was rated could not be assessed in these situations.

Figure 19: Compliance ratings for IIROC shops with general advice

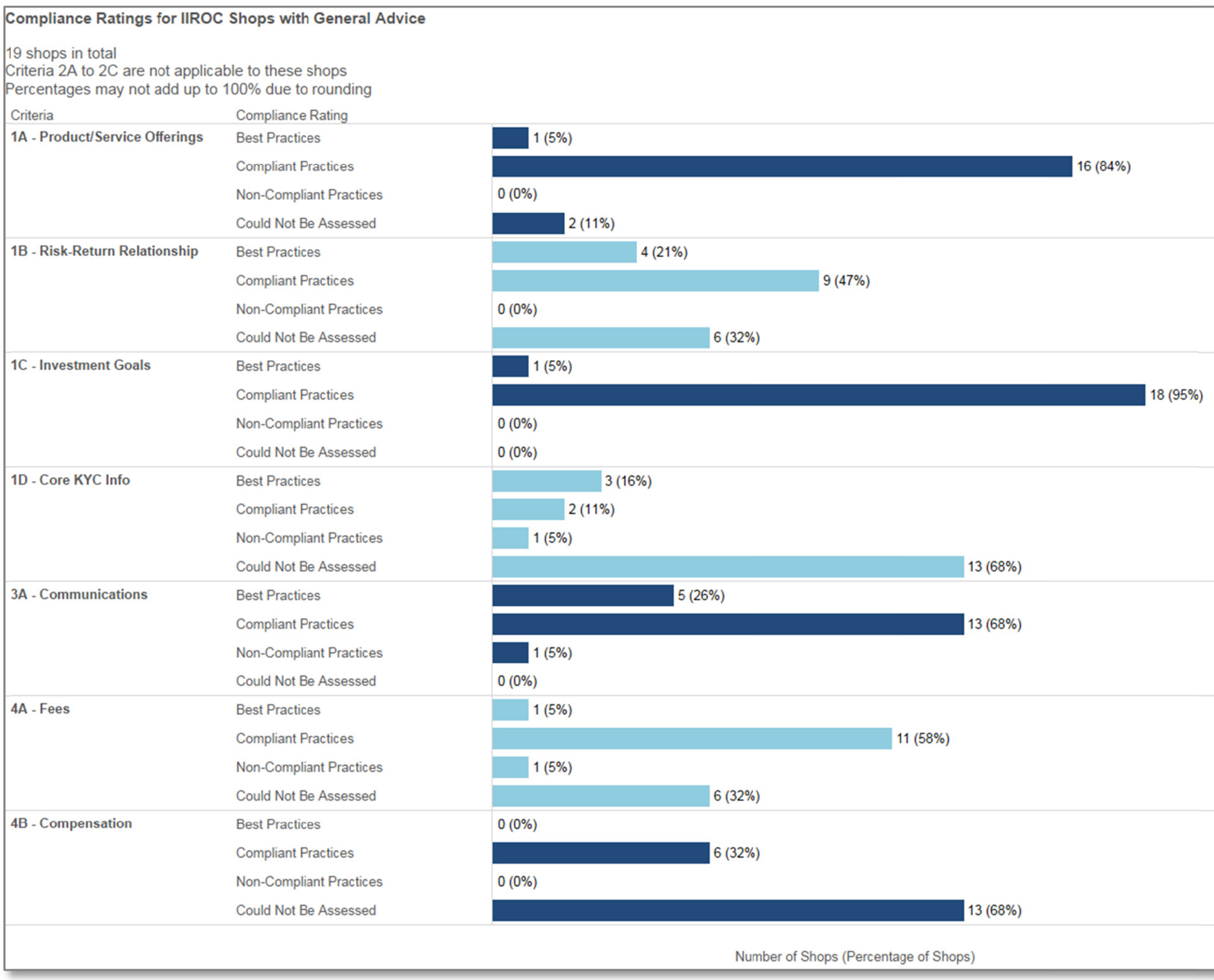
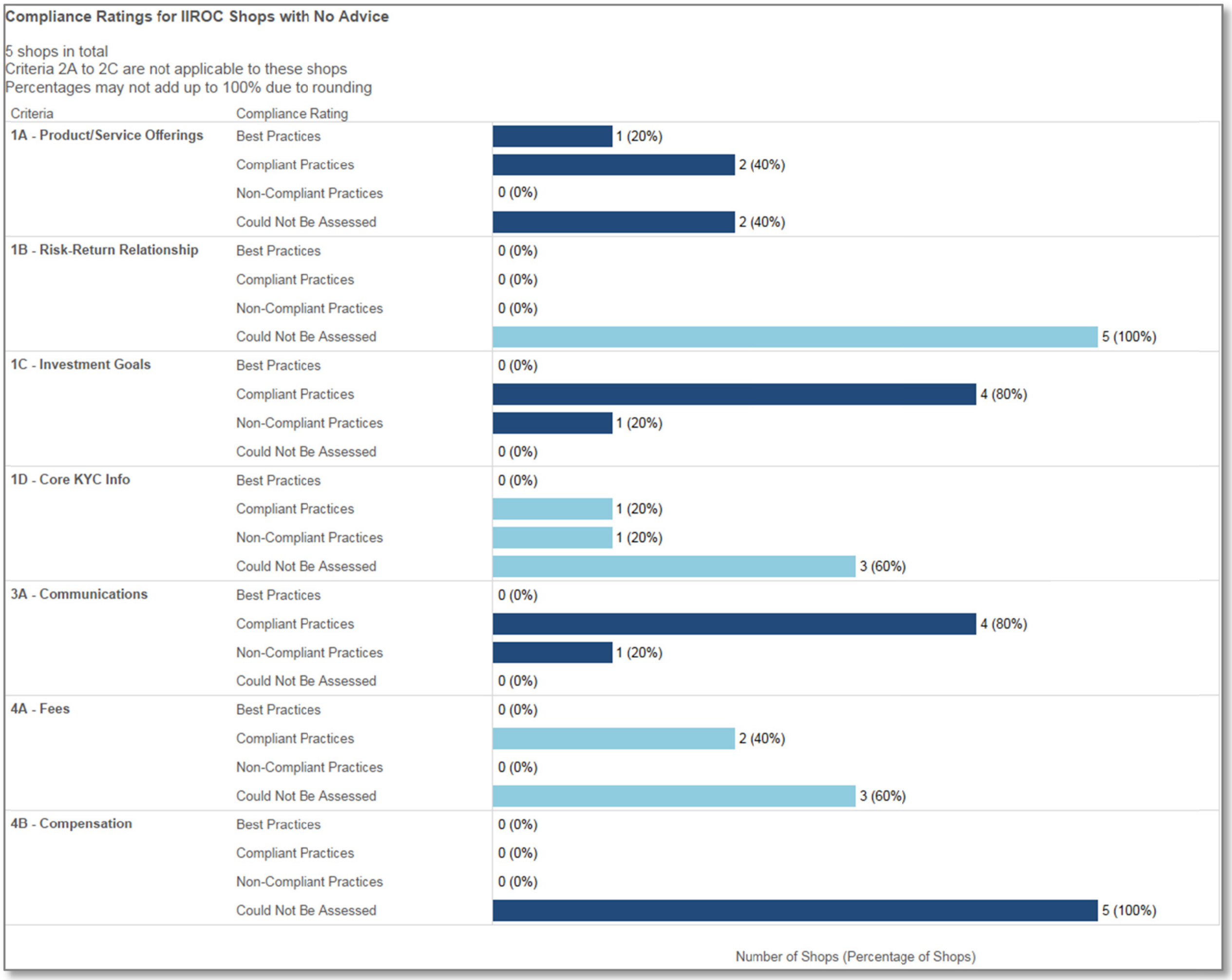


Figure 20: Compliance ratings for IIROC shops with no advice



Section 1: Collection of personal information/circumstances

1.1 Discussion of product/service offerings

In 20 shops involving general advice/no advice there was a compliant discussion of product/service offerings. For the remaining four shops this item was rated as could not be assessed based on the information available for those shops. Out of the 20 shops in which a product/service offering discussion took place, there were two best practices identified. The first case involved a firm that offered a full range of products and the advisor took the time to review all the basic types of products available. In the second case the business model of the advisor's firm was focused primarily on certain products, and the advisor carefully explained the limitations of the firm's product offering along with an explanation of the firm's investment strategy.

1.2 Discussion of risk-return relationship

Shoppers in 11 of 24 shops indicated that a discussion of the risk-return relationship did not take place. Five of these were cases where no advice was given, and six were shops in which general advice was provided. These shops were rated could not be assessed for this criterion, given the limited extent to which the shops progressed. Regarding the other 13 shops in which the risk-return relationship was discussed there were four shops where best practices were found. In these cases the advisors went beyond a verbal explanation of the concept of risk-return and used visual aids, such as charts and graphs or specific examples of the performance of various sample portfolios over time, in order to help the shopper understand the concepts of risk and return.

1.3 Discussion of personal circumstances and investment goals

In all but one of the 24 shops the shopper's circumstances and investment goals were discussed. The one non-compliant exception involved a shop in which no advice was given and which did not progress very far. Even in a very preliminary introductory meeting it is expected that there will at least be a high-level discussion of the shopper's investment goals. Also, in one case a best practice was identified, owing to the depth and variety of questions asked.

1.4 Collection of core KYC Information

For any initial meeting to be effective, a minimum amount of client information must be gathered by an advisor in order to determine if there is sufficient basis to move forward. Generally, the more information exchanged the better, and in most of the shops the advisor collected information regarding the shopper's investment objectives, time horizon and investment knowledge. There were a number of shops in which the advisors did not obtain a complete picture of the shoppers' overall financial situation and/or did not inquire about the shoppers' risk tolerance. Given the fact that follow-up meetings would be required prior to account opening, this element was rated as could not be assessed for 13 shops involving general advice and three shops involving no advice. There were two cases that were rated as non-compliant, one involving general advice and one in which no advice was provided. In both cases there was virtually no discussion of any KYC factor.

There were three shops in the general advice category in which best practices were observed. All core KYC information was collected and the advisors asked the shopper a series of questions designed to gauge the shoppers' understanding of risk and also to address the various aspects of risk.

Section 2: Recommendations

Criteria 2A, 2B and 2C were not applicable to these shops as no product or specific recommendations were made.

Section 3: Communication with shopper

3.1 Communication with shopper

In 22 of the 24 shops the quality of advisor communication was compliant. There were two cases identified, however, in which shoppers commented on poor advisor communication, resulting in a non-compliant rating. The shoppers reported that advisors did not answer questions, did not give the shoppers their undivided attention, and spoke in vague generalities that provided the shoppers with very little useful information with which to assess the potential for establishing a mutually beneficial advisory relationship.

There were five shops in which best practices were identified. In these shops the shoppers commented on the "excellent listening skills" of the advisors, the use of personal stories by the advisors to make certain concepts more understandable, or the ability of the advisors to explain complex concepts in an understandable manner.

Section 4: Disclosure of fees, charges and compensation

4.1 Discussion of product fees and charges

In ten shops the subject of fees was not addressed. In these cases this element was generally rated as could not be assessed, because there was a very limited discussion of specific products. However, there was one shop that was rated as non-compliant owing to the fact that certain specific product alternatives were discussed, but there was no mention of any applicable fees. Also, there was one shop in the general advice category in which a best practice was identified. In this case the advisor took the time to explain in detail how a particular fee structure applied to the specific products that were being discussed. The remaining 13 shops demonstrated compliant practices.

4.2 Discussion of advisor compensation

In six shops, advisor compensation was discussed in a compliant manner. In the remaining 18 shops, the topic was not addressed. These shops were all rated as could not be assessed given the high-level nature of the meeting.

Mutual Fund Dealers

The advisory process may unfold in a variety of ways. Elements of the benchmark criteria may or may not occur at an introductory meeting and may occur at different times in the process. Where the shop did not progress to a point where an activity was expected to occur an element of the benchmark criteria was rated as could not be assessed.

In 13 MFDA shops, advisors provided general advice to the shoppers relating to making RRSP contributions, reducing debt and investing in mutual funds generally. In 10 shops, no advice was given but the advisors discussed such things as the products and services they offer and the shoppers' reasons for investing.

Figure 21: Compliance ratings for MFDA shops with general advice

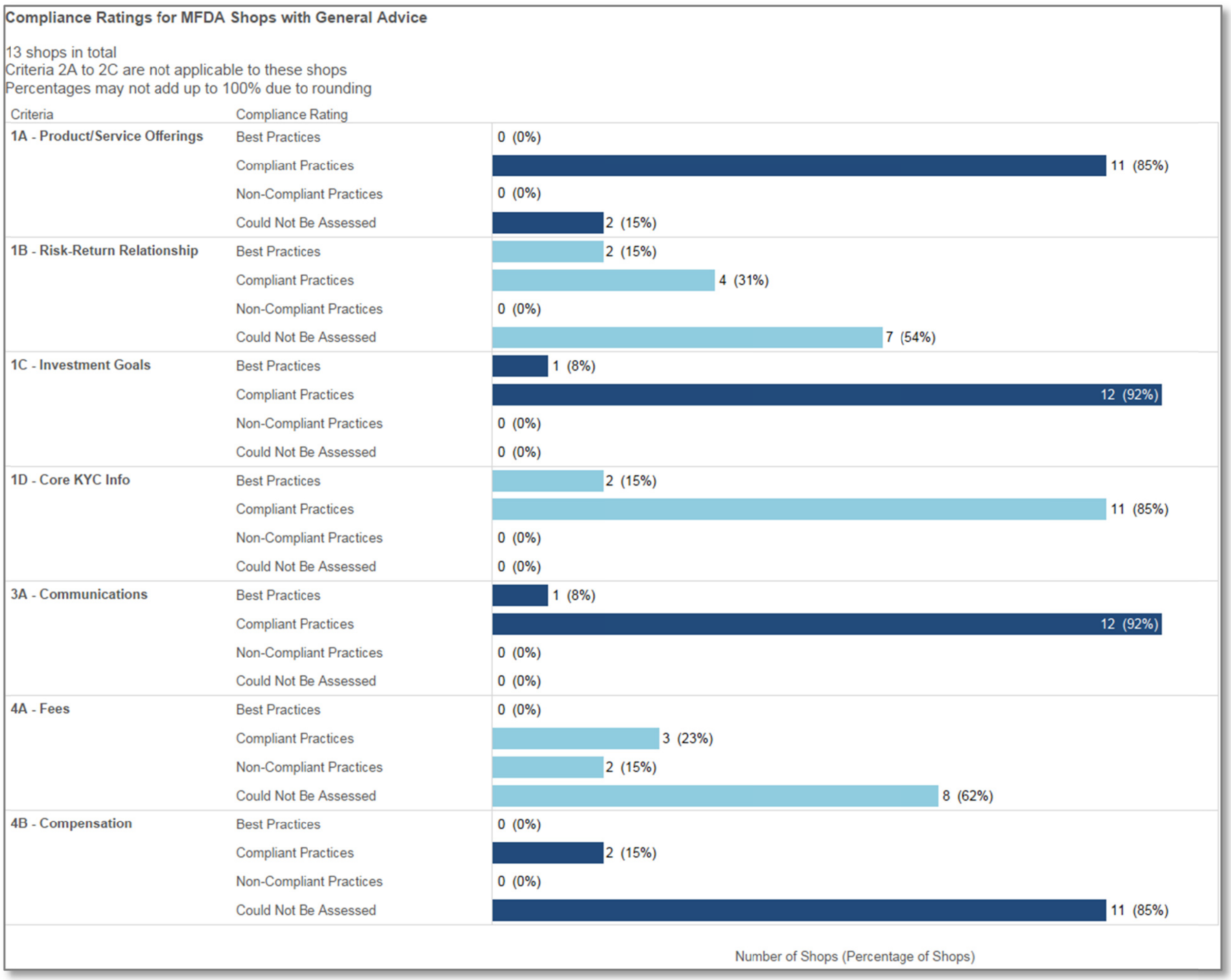
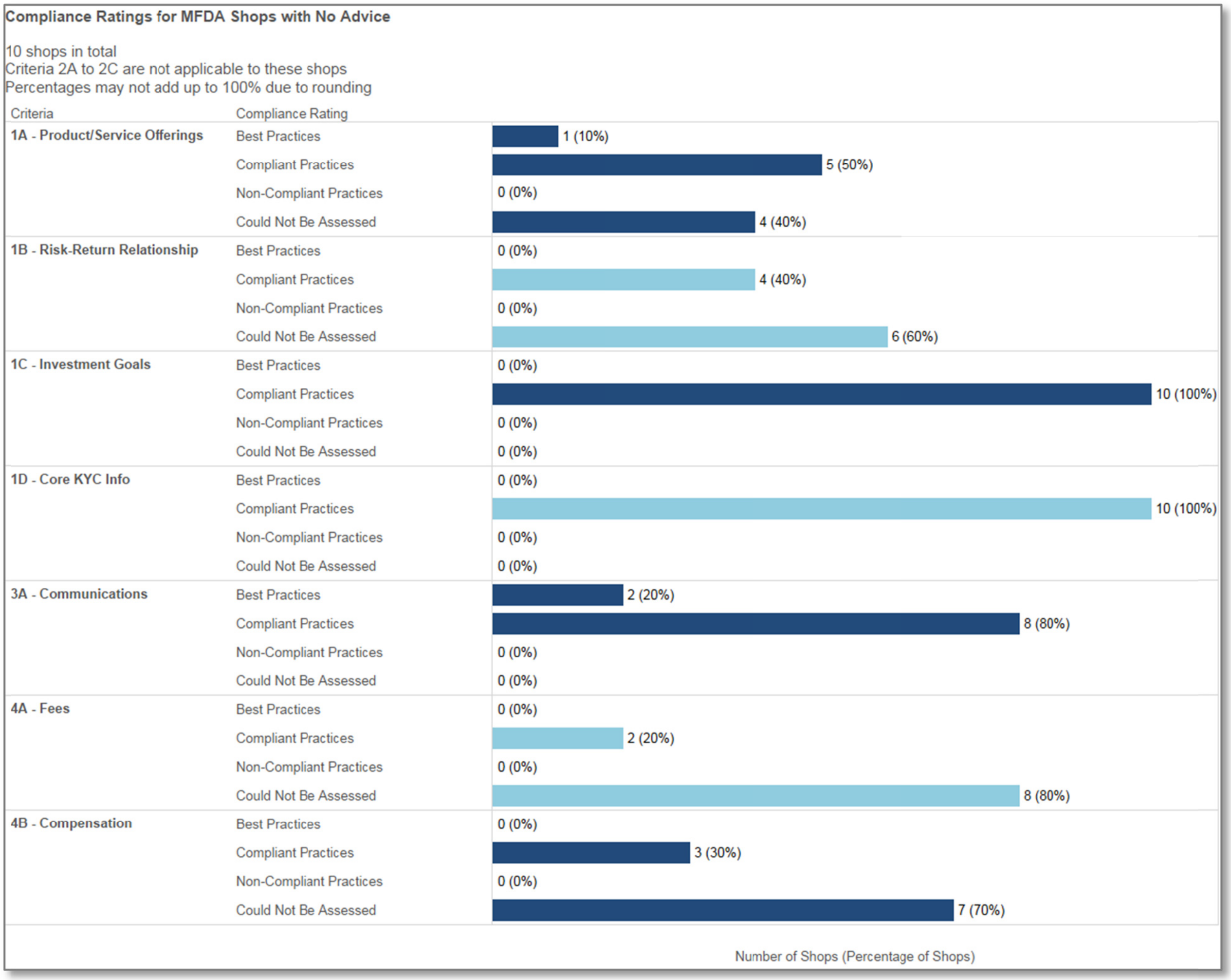


Figure 22: Compliance ratings for MFDA shops with no advice



Section 1: Collection of personal information/circumstances

1.1 Discussion of product/service offerings

In the 23 MFDA shops in which general advice or no advice was provided, one shop (4%) was rated as best practices because the advisor discussed the products available and provided the written relationship disclosure document even though an account was not being opened. Sixteen shops (70%) were rated as compliant because the advisor had a general discussion on the products and services they offer and six shops (26%) were not rated because the discussion focused on understanding the shoppers' personal and financial circumstances and little or no advice was given.

1.2 Discussion of risk-return relationship

Two shops (9%) where general advice was given were rated as best practices because the advisor defined the risk-return relationship and also used visual tools such as graphs, diagrams and charts to explain this concept. Of the remaining shops, eight (35%) were compliant and 13 (57%) could not be assessed for this criterion as little or no advice was provided.

1.3 Discussion of personal circumstances and investment goals

Shoppers' circumstances and investment goals were discussed in a compliant manner in all 23 MFDA shops in which general advice or no advice was given. Best practices were observed in one shop (4%), where the advisor engaged in a detailed discussion of goals and follow-up questions about the shoppers' circumstances and investment objectives.

1.4 Collection of core KYC Information

Two shops (9%) where general advice was given were rated best practices because the advisors used investor questionnaires to explain KYC concepts and collect KYC information. The remaining 21 shops (91%) were compliant even though the discussion of the shoppers' core KYC information had commenced but was not yet completed at the end of the introductory meeting. The discussions that did occur were on track to meet the regulatory expectations.

Section 2: Recommendations

Criteria 2A, 2B and 2C were not applicable to these shops as no product or specific recommendations were made.

Section 3: Communication with shopper

3.1 Communication with shopper

Overall the shoppers were pleased with the level of communication with the advisor. Many shoppers commented that they were satisfied with their experience, felt they had the opportunity to ask questions and were pleased with the level of information received.

In the 23 MFDA shops in which general advice/no advice was provided, three shops (13%) were rated as best practices when it came to communicating with shoppers. These advisors used tools and visual aids to communicate and engage with shoppers, encouraged shoppers to ask questions and explained the advisory relationship and described the client's role in the process. The remaining twenty shops (87%) were rated compliant, as the shoppers noted no concerns regarding the advisors' communications or explanations.

Although the shoppers felt they had a good understanding of what was discussed during the meeting, some of the responses in the post-shop questionnaire indicate that some shoppers were confused when it came to understanding products versus account types, the risk/return relationship, and fees and charges. This confusion may stem from the complexity of financial terms and concepts and the financial knowledge of the shoppers.

Section 4: Disclosure of fees, charges and compensation

4.1 Discussion of product fees and charges

A discussion of applicable fees and charges should occur when products and their features are discussed. In the 23 MFDA shops where general advice/no advice was provided, five shops (22%) were rated as compliant because the advisors discussed fees and charges. Two shops (9%) were rated as non-compliant because the advisors discussed products and their features generally but did not discuss applicable fees. The remaining 16 shops could not be assessed because no products were discussed and little or no advice was provided.

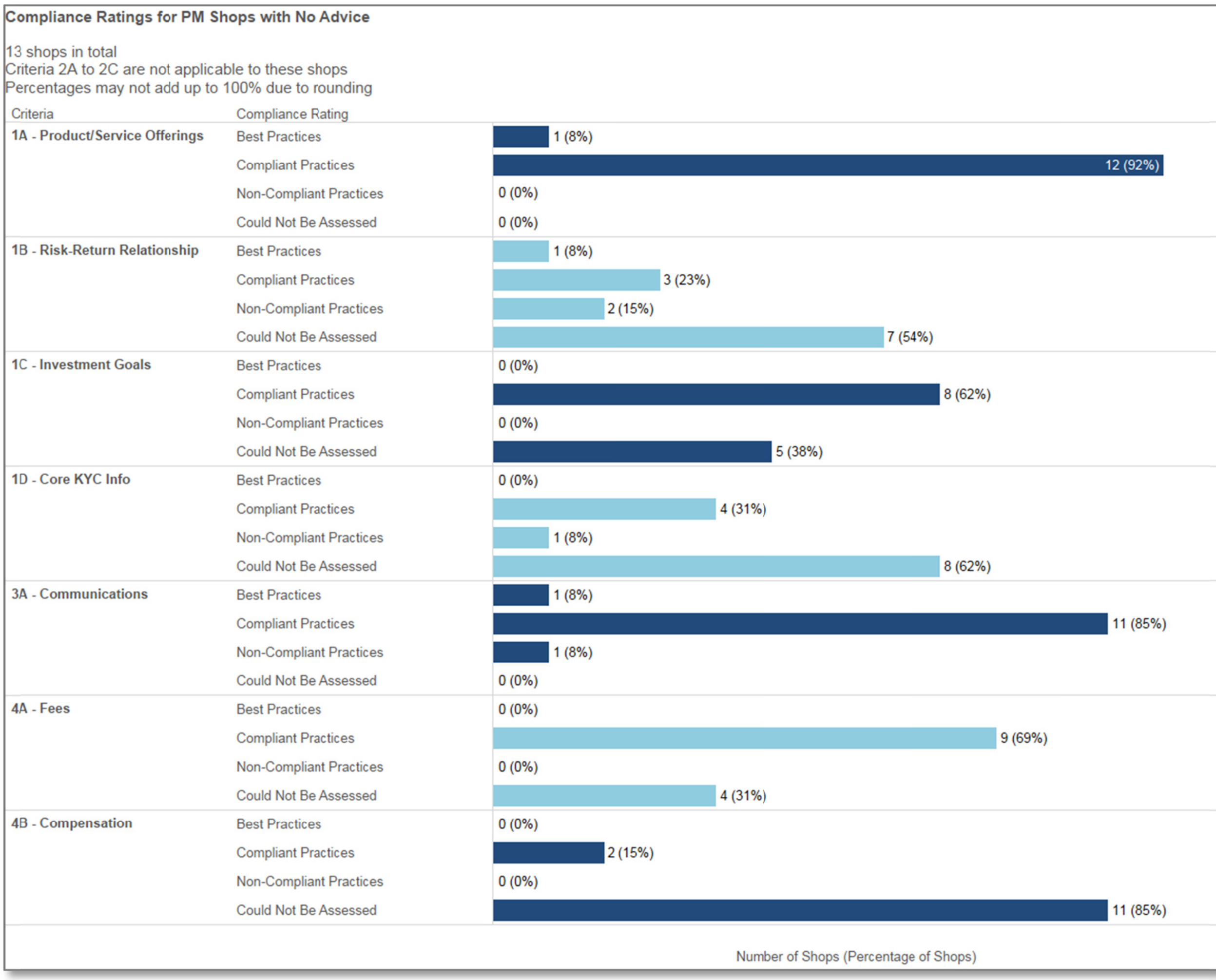
4.2 Discussion of advisor compensation

In the 23 MFDA shops where general advice/no advice was given, a compliant discussion of advisor compensation was observed in five shops (22%). The remaining 18 shops (78%) could not be assessed because the advisor was a salaried employee.

Portfolio Managers

On the PM platform, 13 shops proceeded to a point where we were able to assess one or more of the evaluation benchmarks. In all cases, the shoppers were not able to obtain a specific recommendation as the first meeting was typically introductory in nature. The advisors focused primarily on the type of services that they offer to clients and at the same time, it appears that the advisors also used this opportunity to assess whether the shopper fit in with their overall investment style. Most advisors indicated to the shoppers that subsequent meetings would be necessary to further discuss their KYC information and investment strategies. This is consistent with the PM client onboarding process whereby the advisors typically meet with their clients a couple of times to better understand their investment needs and objectives before they can develop a specific investment plan for them. As such, for most shops, we were unable to rate certain criteria due to limited information.

Figure 23: Compliance ratings for PM shops with no advice



Section 1: Collection of personal information/circumstances

1.1 Discussion of product/service offerings

All of the shops involved a discussion of the products/services that the advisors could provide. We observed some best practices in this area where the advisor used tools like presentation slides, charts or graphs to assist the shopper in understanding their investment processes including a high level discussion of asset allocation and the importance of diversification of assets.

1.2 Discussion of risk-return relationship

Six shops included a discussion of the risk-return relationship, with the advisor communicating the concept either verbally or through the use of charts or graphs to illustrate the risk-return concept. However, in two of these shops, the advisors did not provide a balanced discussion of the potential returns of investment portfolios. These advisors focused primarily on the upside returns and did not discuss the risk factors that may affect the performance of the investment portfolios. It was also not clear whether the returns provided to the shoppers were net or gross of fees. We believe that a balanced discussion is important when communicating about performance returns to potential investors. It is also more meaningful to discuss returns net of management fees as some investors may not be able to understand the impact of fees on their returns.

1.3 Discussion of personal circumstances and investment goals

Most advisors had discussion with the shoppers about their personal circumstances and investment goals and these were conducted in a compliant manner.

1.4 Collection of core KYC information

Some KYC information was collected in the first meeting, such as investment objectives and liquidity needs. In most cases (eight out of 13 shops), the advisor indicated to the shopper that a more in-depth discussion of KYC information would be conducted in a subsequent meeting so as to determine the appropriate investment strategies for them. Some advisors also indicated that the shopper had to complete a questionnaire to assess their risk profiles.

In one shop, we noted that the advisor introduced a financial planner (an unregistered individual) to the shopper and indicated that the financial planner would be responsible for discussing their investment needs and assessing the risk tolerance of the shopper at a subsequent meeting. Since a follow-up meeting was not conducted, it was unclear how involved the financial planner would be in the portfolio management process and whether the financial planner was conducting registerable activities without appropriate registration.

Section 2: Recommendations

Criteria 2A, 2B and 2C were not applicable to these shops as no specific recommendations were made.

Section 3: Communication with shoppers

3.1 Communication with shopper

The advisors generally communicated with the shoppers in a compliant manner and encouraged the shoppers to ask questions during the meeting. We identified some best practices in this area where the advisor used visual aids (e.g., presentation slides, graphs/charts) to assist the shopper in understanding the investment process. Generally, where marketing material was presented by the advisor, it was in plain language. However, we noted one case where the marketing material did not contain an appropriate disclaimer that past performance may not be indicative of future results. Some advisors also informed the shoppers of the role the shopper would play in the portfolio management process (i.e. the shoppers need to review account statements and inform their advisor of any significant changes to their personal and financial circumstances as this may affect how the advisor manages their accounts).

Section 4: Disclosure of fees, charges and compensation

4.1 Discussion of product fees and charges

Nine of 13 shops were compliant. Generally we saw that PMs were upfront about their fees including the method of calculation. Some PMs also indicated to the shoppers that there will be custodial and brokerage fees. In the remaining four cases, fees were not discussed but the shops were preliminary and the reviewer concluded that fees would not be expected to be covered at that stage of the discussion. In one of these instances, however, the shopper was provided with information about fees to take home.

4.2 Discussion of advisor compensation

Advisors discussed their compensation in two shops in a compliant manner. The 11 remaining shops were not rated, as there was not an expectation of a discussion of advisor compensation given the introductory nature of the meetings.

Part III

Conclusions and next steps

To recap, the key conclusions we can draw from this mystery shop research along with the next steps we plan to take are:

Conclusions

1. It is difficult for investors to comparison shop for financial advice, especially on important aspects such as fees and costs.
2. When they first meet with an advisor, investors will more likely hear about products and services offered and discuss their investment goals and objectives. It is less likely they will hear about fees and costs, advisor compensation or the relationship between risk and return.
3. From the perspective of an investor, the number and variety of business titles encountered when shopping for advice can make the process of choosing an advisor a complex one.
4. Advisors' practices in the advice process vary and the elements of the process may occur in a variety of ways and at different stages. This makes it challenging for an investor to understand what to expect when dealing with an advisor.
5. Suitable recommendations might be made based on an incomplete advice process where topics such as risk tolerance, fees and costs are not discussed.
6. Investors do not always know if they have experienced a good advice process.
7. Greater emphasis must be placed on improving the investor experience in the advice process through advisor practices that make it more accessible and understandable.
8. Investors must be given better tools and support to seek out and receive good advice.
9. In initial meetings, advisors tend to focus on what they can sell and what investors may be interested in purchasing based on a general discussion of their investment goals.

Next Steps

The OSC will:

- Continue to focus programs on the compliance and effectiveness of registrants' KYC, KYP and suitability practices and take the necessary action when we see practices that do not meet our expectations
- Provide firms and registrants with additional guidance and education on our expectations for enhancing the advice process and the advisor-client relationship.
- Work with the SROs to reinforce the best practices laid out in the evaluation benchmarks
- Implement a targeted strategy so that investors have the critical tools they need to find, work with, and evaluate an advisor and consider different investment products to make more informed investment decisions
- Consider the findings from the mystery shop in our policy development on crucial investor protection initiatives, including developing and evaluating proposals for a best interest requirement and addressing embedded fees and commissions

- Evaluate potential targeted regulatory reforms and guidance under securities regulation to improve the advisor-client relationship, addressing areas such as KYC, KYP, suitability and business titles
- Examine opportunities for applying insights from the mystery shop research and the field of behavioural science to investor-focused policy development and programs

IIROC will:

- Increase the content and breadth of distribution of educational materials designed to help retail investors understand the KYC process and its importance to the advisor-client relationship
- Continue to ensure our compliance examinations and enforcement priorities promote compliance by IIROC dealers with IIROC's current requirements and guidance regarding:
    - the relationship disclosure information that is required to be provided to clients to help them understand why the KYC information collected by the IIROC dealer is important
    - the use of misleading business titles and designations[12]
- Assess the impact on the KYC process of the evolution of business models used by IIROC dealers – including the use of new on-line tools and model portfolios – and consider potential regulatory reforms and/or guidance to ensure that IIROC's KYC requirements appropriately align the types and depth of KYC information collected with the business models used
- Develop guidance designed to assist IIROC dealers in training their advisors to better explain, and identify the level of client understanding of, important KYC concepts that are relevant to the service being provided, taking into account the results of the qualitative research IIROC conducted on the KYC process through investor consultations

MFDA will:

- Continue to develop guidance to improve the quality of advice and the overall client experience. This will include the development of best practice guidance on the advisory process and involve input from advisors on common problems they face and practical solutions to address them. We will also develop guidance on specific topics such as KYC practices and the transparency and suitability of fees and charges
- Develop plain language communication to educate investors on the advisory process including what to expect when meeting with an advisor, the KYC collection process, advisor licensing and qualifications, the nature of the services to be provided, and key regulatory requirements
- Continue to protect seniors by focusing compliance and enforcement efforts on senior investors and by providing Member education and guidance on key issues applicable to seniors
- Provide further guidance on the use of titles. Specifically, initiatives will be focused on the use of titles targeting senior investors and the use of the "financial planner" title
- Institute a continuing education requirement for advisors in order to keep their industry knowledge current and maintain a high standard of professionalism
- Continue to develop clear and objective regulatory standards and practical guidance to promote compliance by Members and advisors

[12] See Appendix F for a list of relevant IIROC guidance.

Appendix A – Profiles of platforms shopped

Profile of Exempt Market Dealers	
Business model	Firms vary from small independent owner-operated businesses to larger firms that may have multiple advisors and multiple branch offices.
Products/investments they offer	Exempt products can include such investments as: • limited partnerships • hedge funds • flow-through shares • real estate investment trusts and • shares of private companies.
Clients they deal with	In order to invest in the exempt market in Ontario, an investor must qualify for an exemption from the prospectus requirement. A prospectus exemption commonly relied upon is the accredited investor exemption. An investor can qualify for this exemption by meeting minimum asset or income thresholds. Clients of an EMD can be both individual or institutional.
Registration category	Dealing Representative
Proficiency requirements	A dealing representative of an exempt market dealer must have one of the following: (a) Has passed the Canadian Securities Exam (b) Has passed the Exempt Market Products Exam (c) Has earned a CFA Charter and has gained 12 months of relevant securities industry experience in the 36 month period before applying for registration (d) The individual satisfies the conditions of being an advising representative of a portfolio manager
Oversight	Ontario Securities Commission
Profile of Investment Dealers and IIROC Members	
Business model	Firms vary in size from the largest financial institutions to boutiques with only a few registered employees.
Products/investments they offer	All types of securities, including stocks, bonds, derivatives, managed investment products.
Clients they deal with	Firms may deal with many types of clients, including retail, institutional, discount brokerage.
Registration categories	Registered Representative – Any person who trades or advises on trades in securities, options, futures contracts, or futures contract options with the public in Canada other than a person who trades or advises on trades exclusively in securities of or guaranteed by the government of Canada or any province of Canada or any municipality in Canada, and shall include a registered representative (mutual funds) approved pursuant to Rule 18.7 and a registered representative (non-retail) approved pursuant to Rule 18.8. Investment Representative – Any person who trades but does not advise on trades in securities, options, futures contracts or futures contract options with the public in Canada, other than a person who trades exclusively in securities of or guaranteed by the government of Canada or any province of Canada or any municipality in Canada, and shall include an investment representative (mutual funds) approved pursuant to Rule 18.7.

Profile of Investment Dealers and IIROC Members (continued)	
Proficiency requirements	The minimum proficiency requirements for a Registered Representative or Investment Representative are as follows: (a) Successful completion of, A. The Canadian Securities Course prior to commencing the training program described in subsection C below; B. The Conduct and Practices Handbook Course and, C. Either o For a Registered Representative dealing with retail customers, a 90 day training program during which time he or she has been employed with a Dealer Member on a full-time basis. o For an Investment Representative, a 30 day training program during which time he or she has been employed with a Dealer member on a full-time basis. (b) For Registered Representatives, other than those who deal in mutual funds only, successful completion of the Wealth Management Essentials Course within 30 months of his or her approval as a Registered Representative. Additional proficiency requirements are required for Registered Representatives who advise on certain products and services: e.g., Options, Futures, Managed Accounts.
Oversight	Investment Industry Regulatory Organization of Canada (IIROC)
Profile of Mutual Fund Dealers and MFDA Members	
Business model	Firms vary from small independent owner-operated businesses to firms related to large financial institutions.
Products/investments they offer	Mutual funds and, subject to appropriate qualifications and licensing, may provide financial planning services or offer other products to clients including GICs, insurance products and exchange traded funds.
Clients they deal with	Firms mainly deal with retail clients.
Registration category	Dealing Representative
Proficiency requirements	A Dealing Representative of a mutual fund dealer must have*: (a) Passed the Canadian Investment Funds Course Exam, the Canadian Securities Course Exam or the Investment Funds in Canada Course Exam; or (b) Earned a CFA Charter and have 12 months of relevant investment management experience in the 36-month period before applying for registration; or (c) Received the Canadian Investment Manager designation and have 48 months of relevant investment management experience, 12 months of which was in the 36-month period before applying for registration. *Additional proficiencies required for commodity pools and exempt securities.
Oversight	Mutual Fund Dealers Association of Canada (MFDA)

Profile of Portfolio Managers	
Business model	Firms vary from small independent owner-operated businesses to firms related to large financial institutions or fund companies.
Products/investments they offer	A portfolio manager provides discretionary management services to clients by developing a customized investment portfolio that aligns with a client's investment goals, risk tolerance and investment needs. Portfolio managers may manage the client accounts on a segregated account basis or through pooled funds.
Clients they deal with	Firms may deal with high net worth individuals or institutional clients (e. g. pension funds, pooled funds)
Registration categories	(1) Advising Representative; (2) Associate Advising Representative
Proficiency requirements	An advising representative of a portfolio manager must have one of the following: (a) has earned a CFA Charter and has gained 12 months of relevant investment management experience (RIME) in the 36-month period before applying for registration (b) has received the Canadian Investment Manager (CIM) designation and has gained 48 months of RIME and 12 months of which was gained in the 36-month period before applying for registration An associate advising representative of a portfolio manager must have one of the following: (a) has completed Level 1 of the Chartered Financial Analyst program and has gained 24 months of RIME (b) has received the CIM designation and has gained 24 months of RIME.
Oversight	Ontario Securities Commission

Appendix B – Research design and project roll-out

Selection of firms to shop

We instructed our market research firm to construct a sampling plan that would randomly target 150 advisors from among a universe of firms registered in Ontario in the investment dealer, mutual fund dealer, exempt market dealer and portfolio manager registration categories. We conducted an initial screening of the universe of 888[13] firms registered in the categories of investment dealer, mutual fund dealer, exempt market dealer and portfolio manager in Ontario.

Firms that were not suitable candidates for the mystery shop research were excluded from the sample if they met any of the following criteria:

- The firm's clients primarily were institutions, such as pension funds or mutual funds.
- The firm did not provide advice to retail clients, for example, online brokerage firms.
- The firm only sells niche products.[14]
- The firm is not accepting new clients.
- The firm only accepts new clients by referral.
- The firm was recently established and not yet actively seeking clients.
- The firm was in the process of resigning its registration.

In total, 580 firms qualified for the sample.

The market research firm drew a random sample of 150 advisors from the universe of 47,172[15] advisors registered with the firms in the sample. In order to develop a statistically representative sample of advisors and firms across Ontario, the sampling also took into account the firm's:

- Registration category, i.e. firm is registered as an investment dealer, mutual fund dealer, exempt market dealer and/or portfolio manager.
- Firm size or financial institution status (this criteria only applied to firms registered as investment dealers or mutual fund dealers).
- Location – Central, Eastern, Northeastern, Northwestern, Southwestern.[16]

Eighty-eight mystery shops were completed out of the sample of 150 mystery shops. The table below shows the number of targeted and actual shops in the sample by firm registration category.

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[13] National Registration Database, November 2013

[14] Examples of firms that fell into this category included Futures Commission Merchants and firms that sold mid-cap underwritings on a best-efforts basis to a niche clientele.

[15] National Registration Database, November 2013.

[16] Based on regional groupings developed by the Ontario Ministry of Municipal Affairs and Housing. See http://www.mah.gov.on.ca/Page747.aspx.

Figure 24: Number of targeted shops and actual shops

Firm registration category	Advisor universe	% of advisor universe	Target sample	% of target sample	Total actual shops	% of actual shops
Exempt market dealer	163	0.3%	37	24.7%	11	12.5%
Investment dealer	10,811	22.9%	38	25.3%	30	34.1%
Mutual fund dealer	34,715	73.6%	38	25.3%	34	38.6%
Portfolio manager	1,483	3.1%	37	24.7%	13	14.8%
Total	**47,172**	**100%**	**150**	**100%**	**88**	**100%**

The gap between our target and actual samples were due to project timing considerations and to difficulties that we encountered in accessing the exempt market dealer and portfolio manager registration categories. See "Implementing the Mystery Shop Project" for details.

With respect to the type of firm shopped, 36 shops were with one of the 'Big 5' Canadian banks and the remaining 52 shops were with non-bank firms. The IIROC platform had the highest proportion of shops with banks, followed by the MFDA platform and then the PM platform. The 'Big 5' banks do not own any firms in the EMD platform, hence the absence of bank shops in this platform.

Recruitment and selection of mystery shoppers

The market research firm recruited, selected and trained the mystery shoppers. The objective was to find "natural" or "average" shoppers for each mystery shop. Candidates were recruited through the market research firm's in-house database, traditional media and word of mouth. The shoppers expressed interest in participating in the project by completing a survey.

Candidates were automatically excluded if they or anyone in their household worked for the OSC, IIROC or MFDA or were employed as an advisor at a firm overseen by the OSC, IIROC or MFDA. The remaining candidates underwent a vigorous screening and training process before they were accepted into the project.

Only candidates whose personal circumstances closely matched those in the scenarios (discussed below) were selected for the project. A diverse range of shoppers was selected within these parameters.

Shoppers were matched to an advisor or firm based on the scenario and firm's location. Shoppers were not permitted to accept an assignment at a financial institution where they had an existing business relationship or other potential conflicts of interest. They were permitted to participate in more than one mystery shop. They were not told who commissioned the research; they were only told that they were participating in an "investment project".

Firms shopped and location of shops

The mystery shop yielded 88 shops with sufficient information that could be assessed against the evaluation benchmarks. Sixty-four of the 88 shops occurred in central Ontario while the remaining 24 occurred in eastern Ontario and southwestern Ontario. The geographic distribution of shops is consistent with our sampling plan for the project and is reflective of the distribution of advisors across Ontario.

Figure 25: Number of shops by region, platform and firm type

Number of Shops by Region, Platform and Firm Type								
Region	**EMD**	**IIROC**		**MFDA**		**PM**		**Total**
	Non-Banks	**Non-Banks**	**'Big 5' Banks**	**Non-Banks**	**'Big 5' Banks**	**Non-Banks**	**'Big 5' Banks**	
Central	9	11	13	13	8	8	2	64
Eastern	0	1	2	5	3	1	1	13
Southwestern	2	0	3	2	3	0	1	11
Total	**11**	**12**	**18**	**20**	**14**	**9**	**4**	**88**

Profile of shoppers

The twenty-seven shoppers who conducted the mystery shops ranged in age from 24 years old to 82 years old. The majority of shoppers, i.e. 56% of shoppers, were between 35 and 65 years old. Half of the shoppers were younger than 52 years old and the remaining half were older than 52 years old.

Figure 26: Age of shoppers

Age of Shoppers		
Shoppers' Age Range	**Number of Shoppers**	**Percentage of Shoppers**
Under 35	9	33%
35-65	15	56%
65+	3	11%
Total number of shoppers	**27**	**100%**

Eighteen shoppers reported their investment knowledge as moderate while another eight shoppers reported their investment knowledge as limited. Only one shopper reported his investment knowledge as sophisticated.

Figure 27: Shoppers' self-reported investment knowledge

Shoppers' Self-Reported Investment Knowledge		
Investment Knowledge	**Number of Shoppers**	**Percentage of Shoppers**
Limited	8	30%
Moderate	18	67%
Sophisticated	1	4%
Total	**27**	**100%**

With respect to investment experience, the most common type of investment that shoppers had experience investing in was mutual funds. Shoppers had limited experience in ETFs.

Figure 28: Shoppers' investment experience

Shoppers with investment experience in:	Number of Shoppers	Percentage of Shoppers
Mutual Funds	22	81%
GICs	17	63%
Stocks	14	52%
Bonds	11	41%
Options	5	19%
ETFs	2	7%

Shopping scenarios

The shoppers were instructed to approach the advisor or firm on how to invest a lump sum of money. Eight variations of this scenario were developed by us, in consultation with the external advisory panels. The scenarios were designed to reflect typical investor situations for the different categories of firm registration. The scenarios varied by size of investable assets, financial circumstances, risk appetite, investment time horizon and investment objective. Three scenarios were developed for investment dealers, two for mutual fund dealers, two for exempt market dealers and one for portfolio managers.

The shoppers did not follow a script. The scenarios served as the guidelines to be followed by the shoppers. Within the scenario, shoppers were encouraged to act as themselves and answer questions according to their personal financial circumstances. In a few instances, minimal role playing was required where a shopper's personal financial circumstances did not match those in their assigned scenario. [17] Where variations occurred between the scenario and an actual shop, these differences were considered as part of our final assessment of the shop.

The shoppers were trained to use the word "cautious" when describing their risk tolerance. During shopper training it was emphasized that it related to moderate risk and we interpreted it in this way when assessing the shops. For EMD shops the risk tolerance level was moderate to high.

The shoppers were instructed to continue with the scenario as far as they could in the advice process. Shoppers were not given actual money to use and were not expected open an account, buy an investment product or commit to any investment strategy. The mystery shops were not audiotaped or videotaped. Shoppers were encouraged to take notes during the shops.

[17] 14% of the shops involved role-playing.

Figure 29: Exempt market dealer scenario one

Exempt Market Dealer Scenario One	
Age of investor	35-70
Size of investment	At least $100,000
Source of investment	Lump sum of money from inheritance
Risk appetite	Can vary between moderate risk and high risk
Investment time horizon	Short term (i.e. five or fewer years) Medium to Long term (i.e. 5+ years) Half of shops will use short-term investment time horizon and half will use medium to long-term time horizon.
Purpose of investment	Growth of capital or to earn investment income
Personal financial circumstances	Accredited Investor – The most common ways for individuals to qualify as an accredited investor and allow them to participate in the exempt market include: • Annual income of $200,000 for one person, or $300,000 combined for a couple, or • Net financial assets[18] totaling at least $1 million, or • Total assets of at least $5 million[19]

Figure 30: Exempt market dealer scenario two

Exempt Market Dealer Scenario Two	
Age of investor	35-70
Size of investment	At least $100,000
Source of investment	Lump sum of money from inheritance
Risk appetite	Can vary between moderate risk and high risk
Investment time horizon	Short term (i.e. five or fewer years) Medium to Long term (i.e. five+ years) Half of shops will use short-term investment time horizon and half will use medium to long-term time horizon.
Purpose of investment	Growth of capital or to earn investment income
Personal financial circumstances	Non-accredited investor – a shopper that does not qualify as an accredited investor (see EMD scenario 1 for details)

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[18] Financial assets include cash, securities, and other financial deposits but do not include real estate or other physical property.
[19] These were the applicable requirements when the shops were conducted.

Figure 31: Investment dealer scenario one

Investment Dealer Scenario One	
Age of investor	35-45
Size of investment	$100,000
Source of investment	Lump sum of inheritance money
Risk appetite	Cautious – the investor wishes to take some risk and fluctuation in the value of his/her capital
Investment time horizon	Long term (i.e. 10 or more years)
Purpose of investment	Saving for retirement (looking for growth potential)
Personal financial circumstances	• Family income: $100,000 • Minimum household net worth: $150,000 • Minimal existing debt • Has mortgage • Has investment experience

Figure 32: Investment dealer scenario two

Investment Dealer Scenario Two	
Age of investor	44-54
Size of investment	$150,000
Source of investment	Lump sum of inheritance money
Risk appetite	Cautious – the investor wishes to take some risk and fluctuation in the value of his/her capital
Investment time horizon	Long term (i.e. 10 or more years)
Purpose of investment	Estate planning or retirement planning (looking for growth potential)
Personal financial circumstances	• Family income: $150,000 • Minimum household net worth: $250,000 • No or minimal existing debt • Mortgage free • Has investment experience

Figure 33: Investment dealer scenario three

Investment Dealer Scenario Three	
Age of investor	55-65
Size of investment	$250,000
Source of investment	Lump sum of inheritance money
Risk appetite	Cautious – the investor wishes to take some risk and fluctuation in the value of his/her capital
Investment time horizon	Long term (i.e. 10 or more years)
Purpose of investment	Estate planning or retirement planning (looking for growth potential)
Personal financial circumstances	• Family income: $175,000 - $200,000 • Minimum household net worth: $1,000,000 • No or minimal existing debt • Mortgage free • Has investment experience

Figure 34: Mutual fund dealer scenario one

Mutual Fund Dealer Scenario One	
Age of investor	35-65
Size of investment	$50,000
Source of investment	Sum of money (investible assets) [20]
Risk appetite	Cautious – the investor wishes to take some risk and fluctuation in the value of his/her capital
Investment time horizon	Long term (i.e. 10 or more years)
Purpose of investment	Saving for retirement, estate planning or retirement planning (looking for growth potential)
Personal financial circumstances	Let vary with shopper with exception that they have minimal debt (excluding any mortgage)

[20] Investible assets made up of existing assets and inheritance money.

Figure 35: Mutual fund dealer scenario two

Mutual Fund Dealer Scenario Two	
Age of investor	35-65
Size of investment	\$100,000 - \$200,000
Source of investment	Sum of money (investible assets) [21]
Risk appetite	Cautious – the investor wishes to take some risk and fluctuation in the value of his/her capital
Investment time horizon	Long term (i.e. 10 or more years)
Purpose of investment	Saving for retirement, estate planning or retirement planning (looking for growth potential)
Personal financial circumstances	Let vary with shopper with exception that they have minimal debt (excluding any mortgage)

Figure 36: Portfolio manager scenario

Portfolio Manager Scenario	
Age of investor	35-65
Size of investment	\$750,000 - \$1,000,000
Source of investment	Lump sum of money from inheritance or sale of real estate/business
Risk appetite	Cautious – the investor wishes to take some risk and fluctuation in the value of his/her capital
Investment time horizon	Medium to Long term (i.e. five + years) Long term (i.e. 10 + years)
Purpose of investment	Retirement planning or set up a trust for the beneficiaries or manage money for future estate
Personal financial circumstances	• Family Income: \$200,000 - \$300,000 • Minimum household net worth: \$1,000,000 • No or minimal existing debt • Mortgage free • Has investment experience

[21] Investible assets made up of existing assets and inheritance money.

Post-shop questionnaire

Each shopper was required to complete and submit a detailed post-questionnaire recording their experience to the market research firm within 12 hours of completing a mystery shop. The post-shop questionnaire was designed to document factual accounts of shoppers' experiences and interactions with advisors. It included open- and closed-end questions to capture information that would allow us to evaluate the quality of the investment advice process in four areas:

- Collection of personal information/ circumstances.
- Recommendation.
- Communication with shopper.
- Disclosure of fees, charges and compensation.

The post-shop questionnaire was developed by us, in consultation with the external advisory panels. You can find the post-shop questionnaire in Appendix D

Implementing the mystery shopping project

The mystery shop research used a stage-gate method of project management. It was carried out in three stages: pre-pilot stage, pilot stage and main stage.

Pre-pilot stage

The pre-pilot stage was conducted to test the viability of the proposed mystery shop scenarios and post-shop questionnaire. Seven pre-pilot mystery shops were conducted in the Greater Toronto Area (one exempt market dealer, two investment dealers, three mutual fund dealers and one portfolio manager).

The pre-pilot stage affirmed that mystery shops could be successfully completed using the proposed scenarios. Before proceeding to the pilot stage, the post-shop questionnaire was modified to include more free-form text box responses. This was to allow shoppers to describe their experience in more detail and provide more content for the reviewers to rely on in in their evaluations of the shops. The pre-pilot shops were not included in the final results.

Pilot stage

The objective of the pilot stage was to assess all aspects of the mystery shop research, including recruitment, briefing and training of the shoppers, the scenarios, execution of the mystery shops and completion of the post-shop questionnaire. Eighteen pilot mystery shops were conducted across Ontario (one exempt market dealer, eight investment dealers, eight mutual fund dealers and one portfolio manager). The pilot shops were included in the final results.

The pilot stage demonstrated that useful information about the investor experience and advice process could be collected through mystery shopping. This stage of the project also confirmed the two potential limitations identified by us and the external advisory panels at the onset of the project:

- **Gaining access to exempt market dealers and portfolio managers**. While the mystery shoppers were able to gain some access to these firms, it required considerable time and effort. These firms typically rely on word of mouth referrals and are selective in accepting new clients. Many do not offer their products and services to the general public and are therefore less receptive to cold calling from potential clients. Based on the pilot results, we concluded that achieving the minimum target of 30 mystery shops each for exempt market dealers and portfolio managers was unlikely within the project timeframe.

- **Proceeding beyond an introductory meeting**. Some mystery shoppers were uncomfortable proceeding with the scenario beyond the introductory meeting because most advisors requested that money be exchanged on the second visit. The process for taking on a new client generally involves at least two or more subsequent meetings: an introductory meeting to get to know the client and determine whether the firm's products and services would be a good fit, and a second meeting to discuss specific product recommendations and strategies in detail. Account opening paperwork is usually completed and money is exchanged at the second, or in some cases, third meeting. Since mystery shoppers were not given actual money to use and were not expected open an account or buy an investment product or commit to any investment strategy, they felt they would lack credibility if there was an expectation of a financial commitment or a decision on specific investment advice. While the market research firm attempted to schedule follow-up meetings, none of the pilot shops proceeded beyond one meeting. Based on these results, we expected that the majority of mystery shops would not proceed beyond one meeting and that the meeting would likely be introductory in nature. We also had to adjust our expectations for the shops and expect that the majority of the mystery shops would not result in a specific product recommendation.

Despite these limitations, we were satisfied that the mystery shop research could still provide us with insights into the investor experience and the opportunity to assess key components of the advice process. Given the challenges in gaining access to advisors at exempt market dealers and portfolio managers, we asked the market research firm to conduct mystery shops of these firms on a best-efforts basis.

The project proceeded to the main stage with minor modifications. In response to shopper feedback, we clarified what constitutes a recommendation from an advisor and when a shop is considered complete. There were no other changes to the shopping scenarios or post-shop questionnaire.

Main stage

During the main stage 70 shops were completed (10 exempt market dealers, 22 investment dealers, 26 mutual fund dealers and 12 portfolio managers).

Profile of advisors shopped

Ninety-one advisors were shopped. The number of advisors exceeded the 88 'valid shops' since there were several shops where more than one advisor was present. The advisors' ages ranged from 25 years old to 75 years old and 70% of advisors were between 35 to 65 years old. Sixty-nine per cent of the advisors were male and the remaining 31% were female.

Figure 37: Profile of advisors shopped

Advisor's Age Range	Number of Advisors		Total	Percentage of Advisors
	Female	Male		
Under 35	6	13	19	21%
35-65	19	45	64	70%
65+	3	5	8	9%
Total number of advisors	**28**	**63**	**91**	**100%**
Percentage of advisors	**31%**	**69%**	**100%**	

Appendix C – Pre-shop questionnaire

Part 1 – Shopper's actual profile and personal financial circumstances

Shopper Profile

a. Shopper Name
b. Date of Birth/Age
c. Address
d. Occupation
e. Name of Employer
f. Number of years with employer
g. Marital Status
h. Spouse date of birth (if applicable)
i. Spouse – name of employer
j. Number of dependents (if applicable)
k. Age of dependents (if applicable)

Shopper Personal Financial Circumstances

a. Gross Annual Income (includes employment income, business income and income from other sources such as dividends from investments)
b. Spouse's Gross annual income (if applicable)
c. Tax situation (e. g. marginal tax rate)
d. Membership in a pension plan
   a. Yes
   b. No
e. RRSP contribution room
f. Value of assets ($ amount in full)
   a. House (primary residence)
   b. Investment property (such as a rental property or a cottage)
   c. Chequing/Savings Accounts
   d. GICs/term deposits
   e. Government bonds
   f. Corporate bonds
   g. Mutual funds
   h. ETFs
   i. Stocks and other securities
   j. Registered assets
      i. Registered accounts (RSPs, , Locked in retirement accounts (LIRA), life income fund (LIR), locked in retirement account (LIRA), locked in retirement income fund (LRIF))
      ii. Tax Free Savings Account (TFSA)
   k. Automobiles
   l. Other assets (e. g. shares in a business)
g. Value of liabilities ($ amount in full)
   a. Mortgage balance
   b. Car loans
   c. Credit card balance
   d. Personal lines of credit
   e. Student loans
   f. Other debt/loans
   g. Other liabilities

Shopper's Own Personal Investment Knowledge and Experience

3. Have you invested in any of the following types of securities or derivatives? (Please check as many that apply)
   a. GICs
   b. Mutual funds
   c. ETFs
   d. Stocks
   e. Bonds
   f. Options
   g. Limited partnership investments

4. Which statement best describes your knowledge of investments?
   a. **Limited.** I have little knowledge of investment products and the financial markets.
   b. **Moderate.** I have working knowledge of investment products, including stocks and bonds, and I frequently follow the financial markets.
   c. **Sophisticated.** I understand how different investment products work and I closely follow the financial markets.

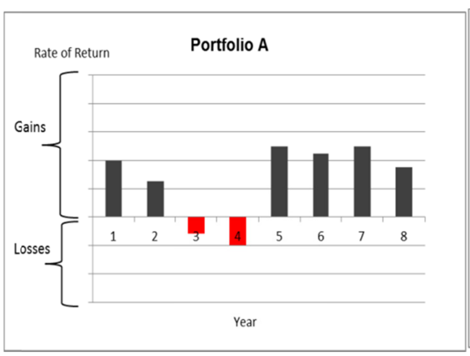
Shopper's Self-Assessment of Personal Risk-Tolerance

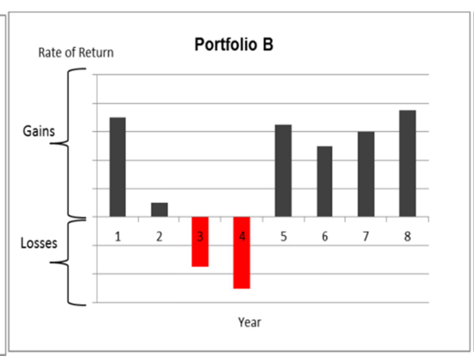
Your comfort level with risk is important in determining how conservatively or aggressively you should invest. Generally speaking, you need to consider accepting more risk if you want to pursue higher returns. If you decide to seek those potentially higher returns, you face the possibility of greater losses.

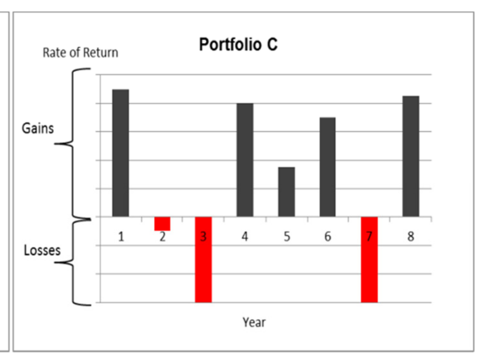
5. In making financial and investment decisions you are:

   a. Conservative, but willing to accept a small amount of risk.
   b. Willing to accept a moderate level of risk and tolerate losses to achieve potentially higher returns.
   c. Aggressive and typically take on significant risk and are willing to tolerate large losses for the potential of achieving higher returns.

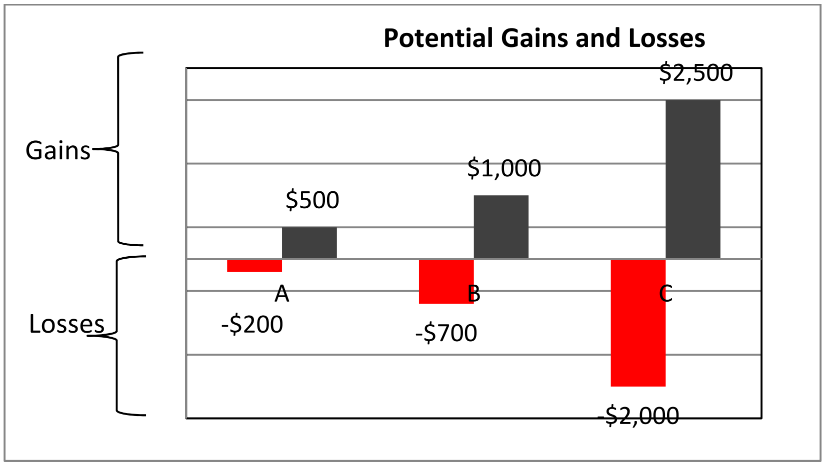
6. Investments with higher returns typically involve greater risk. The charts below show hypothetical annual returns over an 8 year period. Keeping in mind how the returns fluctuate, which investment would you be most comfortable holding?
   a. Portfolio A
   b. Portfolio B
   c. Portfolio C







7. The chart below shows the greatest one year loss and the highest one year gain on four hypothetical investments of $10,000. Given the potential gain or loss in any one year, which would you likely invest your money in?
   a. Loss of $200, gain of $500
   b. Loss of $700, gain of $1000
   c. Loss of $2,000, gain of $2,500



Shopper's Self-Assessment of Personal Investment Objective

8. What is your primary goal for this portfolio?

   a. I want to generate a steady stream of income from my investments*. (Income -Investments that will satisfy this objective include bonds or funds that invest in bonds)*
   b. I want to generate some income with some opportunity for the investments to grow in value. (Balanced - *A balanced fund or a portfolio that includes at least 40% in fixed income investments and no more than 60% in equity will satisfy this objective)*
   c. I want to generate long-term growth from my investments. *(Growth - Your portfolio may hold a relatively high proportion of equities or funds that invest in equities if you also have a long time horizon and are willing and able to accept more risk)*

Part 2 – Shopper's assigned personal financial circumstances

If the shopper's assigned personal financial circumstances will differ from their actual circumstances, then the shopper must fill out this section of the form.

Shopper's Personal Financial Circumstances

a. Gross Annual Income (includes employment income, business income and income from other sources such as dividends from investments)
b. Spouse's Gross annual income (if applicable)
c. Tax situation e. g. , marginal tax rate
d. RRSP contribution room
e. Value of assets ($ amount)
   a. House (primary residence)
   b. Investment property
   c. Chequing/Savings Account
   d. GICs/term deposits
   e. Government bonds
   f. Corporate bonds
   g. Mutual funds
   h. Stocks
   i. Registered assets
      a. RRSPs, TFSA, Locked in retirement accounts (LIRA), life income fund (LIR), locked in retirement account (LIRA), locked in retirement income fund (LRIF)
   j. Automobiles
f. Other assets (e. g. , shares in a business)
g. Value of liabilities ($ amount)

a. Mortgage
b. Car loans
c. Credit card balance
d. Personal line of credit
e. Student loans
f. Other loans
g. Other debt
h. Other liabilities

Part 3 - Shopper's assigned investment profile

This part of the questionnaire records aspects of the shopper's personal circumstances that will be pre-determined based on the scenario the shopper is assigned to shop.

1. Investment time horizon
2. Investment objectives/goals
3. Source of Funds
4. Risk Tolerance

Part 4 – Specific EMD questions

This part of the questionnaire records aspects of the shopper's personal circumstances that will be pre-determined for those shoppers conducting the EMD shops.

1. Role assigned: Indicate if you performed the role of an accredited or non-accredited investor
   __accredited investor
   __non-accredited investor

The following questions only apply to those shoppers who have indicated above that they are performing the role of an accredited investor.

2. Source of assets for accredited investor:
   a. Net financial assets
   b. Net income

3. Amount of Investment for accredited investor :
   a. $150,000 or more
   b. Less than $150,000 (please specify amount $__________ that you indicated that you would invest)

Appendix D – Post-shop questionnaire

Table of Contents

Shopper Instruction

Please complete and submit this questionnaire, along with all documentation collected during your shops within 12 hours of your final shop.

VISIT DETAILS

(To be filled in for each shop and each visit). Applies to all categories of advisers shopped).

1. Mystery Shopper Unique ID Code:
2. Name of Firm:
3. Firm Address:
4. Name of Adviser (to be filled only for shops beyond the initial inquiry):
5. Scenario Name:
6. Date of Visit with Adviser:
7. Start Time of Visit with Adviser (HH:MM):
8. End time of Visit with Adviser (HH:MM):
9. Building / Shop / Office visible to the left of firm's office:
10. WRITE IN description or name of shop/office
11. No building visible
12. Building / Shop / Office visible to the right of firm's office:
13. WRITE IN description or name of shop/office
14. No building visible
15. Proof of Visit:
16. Business card from adviser

Part 1 – Initial inquiry visit

1. Was your initial inquiry by telephone or walk-in?
    a. by telephone
    b. by walk-in

If your initial inquiry was by telephone proceed to question 2.
If your initial inquiry was by walk-in proceed to question 3.

2. What were you told when you phoned the location in advance of your visit?
    a. I was told I should book an appointment
    b. I was told there was no need to book an appointment in advance and that I could walk into a branch and ask to meet with an adviser.
    c. Other, please specify what was said, in the text box below.

3. What were you told when you tried to book an appointment via walk-in?
    a. I was told I should book an appointment
    b. I was told there was no need to book an appointment in advance and that I could walk into a branch and ask to meet with an adviser
    c. Other. Please specify what was said, in the text box below.

4. Were you able to meet with an adviser on your first visit to the location?
    a. Yes
    b. No

If you answered Yes to question 4 please proceed to question 6.
If you answered No to question 4 please proceed to question 5.

5. Were you asked if you are a customer of the firm?
    a. Yes
    b. No
    c. Other, please specify in text box below

6. Were you asked why you decided to contact this firm?
    a. Yes
    b. No
    c. Other, please specify

7. Were you asked about the dollar amount of your potential investment?
    a. Yes
    b. No
    c. Other, please specify

8. What other questions were you asked during this call/walk-in visit?

9. Are there any other observations that you would like to share?

Part 2 – Due diligence and information gathering

A. Investor's profile

1. Did the adviser ask you how much money you want to invest?
    a. Yes. State the dollar amount of your investment, in the text box below.
    b. No
    c. Other, please specify in the text box below.

2. Did the adviser ask you to deposit your money before he/she proceeded with giving you advice of how to invest your money?
    a. Yes
    b. No
    c. Other, please specify in the text box below.

3. Did the adviser ask you for the following information? Select as many choices that apply.
    a. Full Legal Name
    b. Date of Birth or Age
    c. Residential address
    d. Mailing address (if different from residential address)
    e. Phone Number
    f. Marital status
    g. Social Insurance Number
    h. Name of Employer
    i. Number of years with employer [for EMD shops only]
    j. Occupation/Profession
    k. Your annual income
    l. Your spouse's annual income. State the dollar amount in the text box below.
    m. Number of dependents (if applicable)
    n. Spouse's name (if applicable)
    o. Spouse's date of birth (if applicable)
    p. Source of your funds
    q. Tax situation or special tax circumstances
    r. Membership in a pension plan
    s. Proof of identity

B. Investor's financial circumstances

1. Did the adviser ask you questions about the assets you own?
    a. Yes, please provide a detailed response in the text box provided.
    b. No
    c. Other, please describe in the text box below.

If you answered YES or OTHER to question 1, proceed to question 2.
If you answered NO to question 1, proceed to question 3.

2. What information did the adviser ask about your assets?
    a. The types of assets I own and the dollar value of each asset
    b. Only the total value of ALL my assets
    c. Other, please provide a detailed response in the text box provided.

3. Did the adviser ask you questions about your debt?
    a. Yes, please provide a detailed response in the text box provided.
    b. No
    c. Other, please provide a detailed response in the text box provided.

If you answered YES or OTHER to question 3, proceed to question 4
If you answered NO to question 3, proceed to the next section.

4. What information did the adviser ask about your liabilities?
    a. The types of liabilities I have and the dollar value of each liability
    b. Only the total dollar value of ALL my liabilities
    c. Other, please provide a detailed response in the text box provided.

5. Did the adviser ask you about your monthly expenses?
    a. Yes, please describe in detail what was discussed about your monthly expenses.
    b. No
    c. Other, please describe in the box below.

C. Tax situation

1. Were you asked about your tax situation?
    a. Yes. Please describe in detail what the adviser asked you in the text box provided.
    b. No
    c. Other, please describe in the box below

D. Experience with investing

1. Did the adviser ask you about your experience with investing?
    a. Yes. Please describe in detail what you told the adviser about your investment experience in the text box provided.
    b. No
    c. Other, please describe in the box below

2. What questions did the adviser ask or what tools did he/she use to assess your experience with investing? (e. g. you may be asked about your past and/or current investment experience, what types of products you invested in, and/or you may be asked to answer a questionnaire) Please describe the questions asked and/or tools used in detail in the text box below

E. Investment objectives/goals

1. Did the adviser ask you upfront what you want to do with your money?
    a. Yes. Please describe in detail what information the adviser asked you in the text box provided.
    b. No
    c. Other, please specify in the text box below.

2. Did the adviser ask you about your investment objectives or life goals for the lump sum of money that you want to invest?
    a. Yes. Please describe in detail what you told the adviser about your investment objectives or life goals in the text box provided.
    b. No
    c. Other, please specify in the text box below

3. Did the adviser ask you how long you want to hold onto your investment?
    a. Yes. Please describe in detail what you told the adviser about your time frame or when you need to withdraw the money in the text box provided.
    b. No
    c. Other, please specify

F. Risk appetite /tolerance

1. Did the adviser ask you about your risk appetite or risk tolerance?
    a. Yes. Please describe in detail what you told the adviser about your risk appetite or risk tolerance in the text box provided.
    b. No
    c. Other, please specify

If you answered YES or Other to question 1 please proceed to question 2.
If you answered NO to question 1 please proceed to question 5.

2. What information did the adviser ask you to establish your risk appetite or risk tolerance? (Select as many responses that apply)
    a. I was asked to review a set of risk tolerance statements and select the statement that best describes my investment preferences.
    b. I was asked to complete a questionnaire using a rate scale.
    c. I was asked about my ability to deal with investment risk. (e. g., are you financially able to bear the loss of some or all of the investment if it performs badly?)
    d. I was asked about my willingness to deal with investment risk. (e. g., can you sleep at night if the value of your investment falls, even though you have the financial ability to absorb the losses)?
    e. Other, please describe what information was asked.

Variation of question 2 for MFDA shops.

MFDA 2. How did the adviser record the information regarding your risk appetite/tolerance? (Select as many responses that apply)
  a. The adviser used a questionnaire tool.
  b. The adviser used a new account application form (NAAF) or know-your-client (KYC) form with definitions.
  c. The adviser did not use a questionnaire tool or NAAF and KYC forms. The adviser, however, did make notes of our discussion.
  d. The adviser did not record the information.
  e. Other, please describe in detail what information was asked in the text box provided.

If you selected answer A to question 2 please proceed to question MFDA 3.
If you selected answer B, C, D, or E, please proceed to question MFDA 4.

3. How did the adviser record the information regarding your risk appetite/tolerance? (Select as many responses that apply)
    a. I was asked to compete a questionnaire using a rate scale
    b. I was asked to review a set of risk tolerance statements and select the statement that best describes my investment preferences.
    c. The adviser documented our discussion and selected my risk appetite/tolerance for me
    d. The adviser did not record the information, he/she just listened
    e. Other, please describe in detail in the text box below

If you selected answer B, D or E to question 3 please proceed to question 5.
If you selected answer A or C, please proceed to question 4.

Variation of question 3 for MFDA shops

MFDA 3. Please review the following statements and select as many that apply.
  a. The adviser reviewed the Investor Profile that was determined by my responses to the questionnaire.
  b. The adviser reviewed the asset allocation model that was determined by my responses to the questionnaire.
  c. The adviser reviewed the portfolio solutions designed for my Investor Profile.
  d. The adviser reviewed other Investor Profiles.
  e. The adviser reviewed other portfolio solutions.
  f. Other, please describe what information was discussed, in the text box below

4. Did the adviser explain to you how your risk appetite/tolerance was determined?
    a. Yes, please describe in detail what information was explained, in the text box provided.
    b. No
    c. Other, please describe in the text box below

Variation of question 4 for MFDA shops.

MFDA 4. What information did the adviser ask you to establish your risk appetite or risk tolerance? (Select as many responses that apply)
    a. The adviser reviewed a list of risk tolerance categories and definitions for each category. I was then asked to select one statement that best describes my investment preferences.
    b. The adviser reviewed a list of risk tolerance categories and definitions for each category. I was then asked to assign a percentage weighting to each category, with the sum adding to 100%.
    c. The adviser asked a series of questions about my ability to withstand a loss and my willingness to accept increased volatility.
    d. The adviser provided or reviewed risk-reward scenarios and I was asked to select an outcome that best described my risk tolerance.
    e. Other, please describe what information was asked.

5. Did the adviser explain the term risk appetite or risk tolerance to you?
    a. Yes, please describe how the adviser explained the term risk tolerance or risk appetite to you.
    b. No
    c. Other, please specify

6. Was the explanation provided before or after you informed the adviser of your risk appetite/tolerance?
    a. Before
    b. After
    c. Not applicable. The adviser did not ask me about my risk appetite/tolerance.
    d. Other, please specify

7. Did the adviser explain to you the relationship between investment risk and investment return?
    a. Yes (select as many responses that apply and provide additional details of what was discussed in the text box provided)
        - The adviser provided a brief overview of the risk return relationship
        - The adviser used aids, such as graphs, to explain the risk return relationship
        - The adviser explained the risk return relationship in terms of asset categories or investment sectors
    b. No
    c. Other, please explain in the text box below.

G. Reviewing and acknowledgement of personal circumstances info

1. Did the adviser explain to you the reasons for asking questions about your financial and personal circumstances?
    a. Yes. Please describe in detail what information was explained to you in the text box provided
    b. No
    c. Other, please describe in the text below.

2. Did the adviser ask you to complete any of the following forms (select as many responses that apply)
    a. Know your client, commonly known as a KYC form
    b. New client account application form (commonly known as a NCAF)
    c. New account application form (commonly known as NAAF)
    d. Investment management agreement
    e. I was not asked to complete any forms
    f. Other. Please describe, in the text box below.

If you selected answer A, B C, D, or F please proceed to question 3. If you selected answer E please proceed to the next section.

3. Did the adviser explain the information contained in the forms that you completed?
    a. Yes. Select which form(s) you were asked to sign (select as many responses that apply.
        - Know your client, commonly known as a KYC form
        - New client account application form (commonly known as a NCAF)
        - New account application form (commonly known as NAAF)
        - Investment management agreement
        - Other – please specify in the text box provided.
    b. No
    c. Other. Please describe, in the text box below.

H. Recording of personal circumstances information

1. Did the adviser record your answers to the personal circumstances questions, that is, questions in Part 2, sections A to F?
    a. Yes, the adviser recorded ALL of my responses
    b. Yes, the adviser recorded only SOME of my responses
    c. No, the adviser did not record my answers
    d. Other. Please describe in the text box below.

I. EMD and PM specific questions

1. EMD AND PM - Did the adviser explain to you that you must be qualified to make an investment in an exempt product.
    a. Yes – please provide a detailed response in the text box provided.
    b. No
    c. Other, please specify

2. EMD AND PM 2 Did the adviser obtain information from you to determine whether you qualify for a "prospectus exemption" and can thus purchase exempt products (e. g. did the adviser gather information from you to assess whether or not you qualify as an accredited investor? - information the adviser may have asked you include your yearly income or the amount of your net financial assets?)
    a. Yes, please describe what information the adviser sought from you.
    b. No
    c. Other, please describe in the text box below

If you answered YES and OTHER to question EMD AND PM2, proceed to question EMD AND PM3.

If you answered NO to question EMD AND PM2, proceed to question EMD AND PM4.

3. EMD and PM - What information did the adviser collect from you?
    a. The amount of my net financial assets. State the dollar amount in the text box below.
    b. The amount of my and my spouse's net financial assets. State the dollar amount in the text box below.
    c. The amount of my net assets. State the dollar amount in the text box below.
    d. The amount of my and my spouse's net assets. State the dollar amount in the text box below.
    e. My net income in the last 2 years and my expected income for this year. State the dollar amount in the text box below.
    f. Other. Please provide a detailed response, in the text box below.

4. EMD AND PM - Did the adviser explain to you other exemptions that you must qualify for in order to invest in exempt products/pooled funds?
    a. Yes. Please provide a detailed description in the text box provided.
    b. No
    c. Other, please describe in the text box below.

5. EMD and PM - Did the adviser suggest ways that you can invest in exempt products? (e. g. , did the adviser recommend that you borrow money or liquidate some of your assets so that you can meet the accredited investor requirements which would then enable you to invest in the adviser's product)?
    a. Yes. Please provide a detailed description in the text box provided.
    b. No
    c. Other, please describe in the text box below

Part 3 - Transparency and comprehensiveness

1. Please describe how your discussion with the adviser unfolded. Please provide a detailed response in the text box provided.

2. Did the adviser discuss with you the products and/or services that he/she is licensed to sell?
    a. Yes, please select only one of the options below and provide details of what was discussed in the text box provided.
        - A general discussion of what the adviser can sell or advice he/she can provide occurred.
        - A detailed discussion of the products that the adviser can sell or the services that the adviser can provide occurred.

    b. No
    c. Other, please describe in the text box below

3. Did the adviser discuss with you the products and/or services he/she is not licensed to sell?
    a. Yes. Please provide details of what was discussed in the text box below.
    b. No.
    c. Other, please describe in the text box below

4. Did the adviser recommend that you speak to someone else about the products and/or services that he/she is not licensed to sell?
    a. Yes, please provide details of what was discussed in the text box below.
    b. No
    c. Other, Please specify in the text box below.

5. Did the adviser encourage you to ask questions if you did not understand what was being discussed?
    a. Yes.
    b. No
    c. Other, please describe/explain in the text box below

6. Did you ask questions during your meeting with the adviser?
    a. Yes
    b. No
    c. Other, please describe/explain in the text box below

7. Did the adviser answer your questions and explain to you matters that you did not understand?
    a. Yes. Please provide details of the questions asked and the responses provided, in the text box below.
    b. No. Please provide details of the questions NOT answered and which responses you did not understand in the text box below.
    c. Other, please describe/explain in the text box below

8. Did the adviser disclose to you any conflicts of interest, either verbally or by drawing your attention to written documents?
    a. Yes, please select only one of the options below and describe, in text box below, what was said.
        - Conflicts of interest were disclosed but they were not explained.
        - Conflicts of interests were disclosed and they were explained.

    b. No
    c. Other, please describe in the text box below

9. Did the adviser outline his/her expectations of your responsibilities in the advisory process? (select all that apply):

    a. Yes. Select as many choices that apply.
        - The adviser discussed how often we should meet to review my portfolio
        - The adviser discussed my responsibility for reviewing my client statements
        - The adviser discussed my responsibility for informing him/her of any changes to my personal and financial circumstances
        - Other, please provide details in the text box below.

    b. No
    c. Other, please describe/explain in the text box below

Part 4 – Information about product/investment strategy

A. Product/investment strategy

1. (IIROC/EMD/PM) Did you feel you received enough information to make an informed decision?
    a. Yes, please explain why you felt you had enough information in the text box provided.
    b. No
    c. Other, please describe/explain in text box below.

2. (IIROC/EMD/PM) Was a specific product(s)/investment strategy recommended to you?
    a. Yes
    b. No, but various products and strategies were discussed
    c. No, we did not discuss any products or strategies in detail
    d. Other, please describe/explain in text box below.

If you answered A, B or D to question 2, proceed to question 3. Respondents whose answer choice is C do not answer question 5. Rather, after answering question 4, the respondent moves onto the next section of the questionnaire.

If you answered d to question 1, proceed to Part 5 of the questionnaire.

1. (MFDA) Did you feel you received enough information to make an informed decision?
    a. Yes, please explain why you felt you had enough information in the text box provided.
    b. No
    c. Other, please describe/explain in text box below.

2. (MFDA) Was an investment strategy recommended to you? (Includes assets allocation, model portfolios or other portfolio solutions) Select the one that best describes the recommendation.
    a. Yes, an investment strategy with a portfolio/model portfolio solution was recommended to me.
    b. Yes, an asset allocation model was recommended to me.
    c. No, just specific product(s) were recommended.
    d. No, I did not receive any recommendation, but we did discuss various products or strategies.
    e. No, we did not discuss any products or strategies in detail
    f. Other, please describe/explain in text box below.

If you answered A, B, C, or D to MFDA question 2, proceed to question 3
If you answered E to MFDA question 2, proceed to Part 5 of the Questionnaire.

All the questions from this point forward apply to all platforms unless specified.

3. What product(s)/investment strategy was recommended or discussed with you? Please name the product/portfolio or describe the investment strategy in detail, in the text box below.

4. Did the adviser explain to you why he/she recommended or discussed the product(s)/investment strategy to you and/or how the product(s)/investment strategy met your investment and life goals?
    a. Yes, the adviser provided an explanation for the recommended or discussed product(s)/investment strategy. Please provide details given in the text box below.
    b. Yes, the adviser explained how the recommended or discussed product(s)/investment strategy met my investment goals and life goals. Please provide details in the text box below.
    c. Yes, the adviser provided BOTH an explanation for the recommended or discussed product(s)/investment strategy AND how the recommended or discussed product(s)/investment strategy met my investment goals and life goals. Please provide details in the text box below.
    d. No, the adviser did not explain the reasons behind his/her recommended or discussed product(s)/investment strategy or how the recommended or discussed product(s)/investment strategy met my investment goals and life goals
    e. Other, please explain in the text box below.

5. Did the adviser explain why he/she chose to recommend this product/investment strategy over other ones that were discussed?

a. Yes, the adviser explained why the recommended product/investment strategy was chosen over other options that were discussed. Please provide details of the explanation given by the adviser for the recommended product/investment strategy. If other options were discussed please provide details of these options including 1) the proposed product/investment strategy 2) reasons for the proposed product or investment strategy 3) the benefits and risks of the proposed product/investment strategy.
b. No
c. Not applicable. Other products/investment strategies were not discussed with me.
d. Other, please explain in the text box below.

SPECIFIC QUESTIONS FOR EMD SHOPS

1. (EMD) Did the adviser discuss asset concentration, that is, how much of the recommended or discussed product(s) should make up your total portfolio?
    a. Yes. Please select only one of the options below and provide additional details in the text box provided.
        - There was a general discussion of asset concentration in a portfolio and the potential risks this would pose to my portfolio
        - The adviser provided alternatives on how to address concentration risk in my portfolio (*e. g. reducing the amount of investment*)
    b. No
    c. Other, please describe in the text box below

If you answered YES to question EMD1, proceed to question EMD2.
If you answered NO and OTHER to question EMD1, proceed to the next section.

2. (EMD) What was the maximum portfolio allocation suggested by your adviser?

SPECIFIC QUESTIONS FOR PM SHOPS

1. (PM) Did the adviser tell you that he/she will develop a written investment plan for you, which will set out how he/she plans to manage your account?
    a. Yes
    b. No
    c. Other, please specify in the text box below

2. (PM) Did the adviser discuss with you any of the following items? (Select as many that apply):
    a. Investment style (e. g. how do the adviser selects companies to invest). Please describe in the box below.
    b. Portfolio composition (e. g. , how much of your money should be invested in cash, fixed income and/or equities). Please state the composition in the box below. For example 10% cash, 40% bonds, 50% stocks in emerging markets.
    c. Segregated managed accounts
    d. Pooled funds. Please state the name of the pooled fund.
    e. Investment restrictions
    f. Other, please describe in the box below.

3. (PM) Did the adviser recommend or discuss that he/she will manage your account by putting your money into a pooled fund?
    a. Yes
    b. No
    c. Others, please specify in the box below.

If you answered YES or OTHER to question PM 3, please proceed to question PM4.
If you answered No to question PM 3, please proceed to the next section.

4. (PM) What's the name of the pooled fund?

5. (PM) Did the adviser tell you the name of the company that owns the pool fund?
    a. Yes, please specify name of firm
    b. No
    c. Other, please specify

6. (PM) Did the adviser explain to you the RISKS associated with investing in a pooled fund?
    a. Yes, please describe the risks in the box below.
    b. No
    c. Other, please describe in the text box below.

7. (PM)Did the adviser explain to you the BENEFITS associated with investing in the pooled fund?
    a. Yes, please describe the benefits in the box below.
    b. No
    c. Other, please describe in the text box below.

B. Features and risks of product/investment strategy

1. Did the adviser explain the recommended or discussed product's/investment strategy's features to you?
    a. Yes. Please describe what was said, in the text box below.
    b. No
    c. Other, please describe/explain in the text box below.

2. Did the adviser explain to you the risks associated with the recommended or discussed product(s)/investment strategy)?
    a. Yes. Please describe what risks were discussed, in the text box below.
    b. No
    c. Other, please describe/explain in text box below.

3. Did the adviser explain to you the benefits associated with the recommended or discussed product(s)/strategy?
    a. Yes. Please, describe what was said, in the text box below.
    b. No
    c. Other, please describe/explain in text box below.

C. Liquidation of investments and/or assets

1. Did the adviser suggest that you sell some of your existing investments or assets?
    a. Yes
        - There was a general discussion about selling some of my existing investments. Please describe what was discussed in the text box below. In your description please indicate whether or not the discussion included the cost of liquidating the assets.
    b. No
    c. Other, please describe/explain in text box below.

If you answered Yes or Other to question 1, proceed to question 2
If you answered No to question 1, proceed to question 3.

2. What existing investment or asset did the adviser suggest that you sell and for what purpose?

Name of Investment/Asset	Reason for Liquidation
1.	
2.	
3.	
4.	

3. Did the adviser suggest that you transfer some of your existing investments?
    a. Yes
    b. No
    c. Other, please describe/explain in text box below.

If you answered Yes or Other to question 3, proceed to question 4
If you answered No to question 3, proceed to the next section.

4. What existing investment did the adviser suggest that you transfer and for what purpose?

Name of Investment	Reason for Transfer
1.	
2.	
3.	
4.	

D. Borrowing to invest

1. Did the adviser at any point during your meeting discuss the topic of borrowing money to invest?
   a. Yes
   b. No
   c. Other, please describe/explain in text box below.

If you answered YES or Other question 1, proceed to question 2.
If you answered no to question 1, proceed to the next section.

2. Did the adviser suggest that you borrow money to invest in the recommended or discussed product/investment strategy?
   a. Yes, please describe the discussion in detail in the text box below.
   b. No, please describe the discussion in the text box below.
   c. Other, please describe/explain in text box below.

If you answered YES or Other to question 2, proceed to question 3.
If you answered no to question 2, proceed to the next section.

3. Did the adviser provide suggestions of how you can borrow the money?
   a. Yes, please describe in the text box below.
   b. No
   c. Other, please describe/explain in text box below.

4. Did the adviser discuss the RISKS of borrowing money to buy investments?
   a. Yes,(select as many responses that apply)
      - There was only a general discussion of risk. Please provide details of what was discussed in the text box below.
      - The adviser explained that borrowing money to invest is a high risk strategy and explained the risks involved with such a strategy. Please provide details of what was explained to you.
      - The adviser provided a written risk disclosure document
      - The adviser explained that the loan will need to be serviced and repaid regardless of the performance of the investment.
   b. No
   c. Other, please describe/explain in text box below.

5. Did the adviser discuss the BENEFITS of borrowing money to buy investments?
   a. Yes, please describe the benefits in text box below
   b. No
   c. Other, please describe/explain in text box below.

6. Did the adviser provide you with a Leverage Risk Disclosure Document?
   a. Yes
   b. No
   c. Other, please describe/explain in text box below.

7. Did the adviser provide return projections on the borrowing to invest strategy?
   a. Yes, (select one of the options below):
      - Positive projections
      - Negative projections
      - Mixture of positive and negative projections

   Please provide additional details in the text box provided.
   b. No
   c. Other, please describe/explain in text box below.

If you selected answer A or C please proceed to question 8. If you selected answer B please proceed to question 9.

8. Did the adviser explain the projections to you.
    a. Yes. Please provide details of what was explained to you in the text box provided.
    b. No
    c. Other, please describe/explain in text box below.

9. Did the adviser discuss the beneficial tax treatment (interest deductibility) of borrowing to invest?
    a. Yes, please describe the discussion in text box below
    b. No
    c. Other, please describe/explain in text box below.

10. Did the adviser inform you that additional information and further analysis would need to be completed in order to proceed with a borrowing to invest strategy?
    a. Yes, please describe the discussion in the text box below.
    b. No
    c. Other, please describe/explain in text box below.

E. Information on costs, fees, charges and payment

1. Did the adviser discuss any fees and/or charges associated with the recommended or discussed product/investment strategy?
    a. Yes. Please name the fees and/or charges that were discussed in the text box below.
    b. No
    c. Other, please describe in the box below.

If you answered YES or Other to question 1, proceed to question 2.
If you answered NO to question 1, proceed to question 3.

2. Did the adviser explain to you the purpose of the fees or charges?
    a. Yes (select as many responses that apply.)
        - There was a general discussion of the different types of fees or charges. Please provide details of what was discussed in the text box.
        - There was a thorough explanation on the different types of fees or charges. Please provide details in the text box.
        - There was a general discussion on conflicts of interest relating to commissions, fee structures and charges. Please provide details of what was discussed in the text box.
    b. No
    c. Other, please describe in the box below.

3. Did the adviser discuss with you the different options that you have in paying for the fees and/or charges associated with the recommended or discussed product/investment strategy?
    a. Yes. Select as many choices that apply and for each choice selected please describe what was discussed.
        - I can pay an upfront commission.
        - I can defer payment of the commission now and hold the investment until maturity.
        - I can pay an hourly rate,
        - I can pay a fee directly to the adviser based on the amount of money that I have invested with the adviser.
        - Other, please describe in the text box below.
    b. No
    c. Other, please describe in the box below.

4. Did the adviser explain how he/she would be compensated, that is, how he or she is paid to manage your investment?
    a. Yes (select as many responses that apply)
        - There was a general discussion of how the adviser would be compensated. Please provide details of what was discussed in the text box.
        - There was a detailed discussion of how the adviser would be compensated including examples of how the adviser was compensated such as trailer fees, referral fees etc.
        - There was a discussion of conflicts of interest relating to compensation
        - There was a discussion and explanation of conflicts of interest relating to compensation

b. No
c. Other, please describe in the box below.

F. Marketing and financial performance materials and explanation of these materials

1. Did the adviser show you a copy of the recommended or discussed products, investment strategy, or model portfolio marketing material?
    a. Yes
    b. No
    c. Other, please describe/explain in text box below.

If you answered Yes or Other to question 1, proceed to question 2.
If you answered No to question 1, proceed to question 3.

2. Did the adviser explain to you the information contained in the marketing materials?
    a. Yes, please provide details of what was explained in the text box provided.
    b. No
    c. Other, please describe/explain in text box below.

3. Did the adviser show you a copy of the recommended or discussed product, investment strategy, or model portfolio financial performance material?
    a. Yes
    b. No
    c. Other, please describe/explain in text box below.

If you answered Yes or Other to question 3, proceed to question 4.
If you answered No to question 3, proceed to the next section.

4. Did the adviser explain to you the information contained in the financial performance materials?
    a. Yes. Please describe what was said in the text box below.
    b. No
    c. Other, please describe/explain in text box below.

G. Disclosure and explanation of past and future financial performance, guarantee of investment returns

1. Did the adviser provide information on the past performance of the recommended or discussed product, investment strategy or model portfolio?
    a. Yes. Please describe what was said in the text box below.
    b. No
    c. Other, please describe/explain in text box below.

If you answered YES or OTHER to question 1, proceed to question 2
If you answered NO to question 1, proceed to question 3.

2. Did the adviser make it clear that past performance is not a reliable indicator of future performance?
    a. Yes, please describe/explain in the text box below.
    b. No
    c. Other, please describe/explain in the text box below.

3. Did the adviser provide any projections for future performance of the recommended or discussed product, investment strategy, or model portfolio?
    a. Yes, please describe/explain what was said in the text box below.
    b. No
    c. Other, please describe/explain in text box below.

If you answered YES or OTHER to question 3, proceed to question 4
If you answered NO to question 3, proceed to question 5

4. Did the adviser explain to you that forecasts of future performance are not a reliable indicator of actual future performance?
    a. Yes, please provide details of what was explained in the text box provided.
    b. No
    c. Other, please describe/explain in text box below.

5. Did the adviser guarantee your investment returns, that is, how much money you will make from the investment?
    a. Yes. Please explain in the text box below.
    b. No
    c. Other, please describe/explain in text box below.

H. Revision of risk appetite/tolerance

1. Did the adviser ask you to change your risk appetite/tolerance answer after recommending or discussing a product or investment with you?
    a. Yes, please describe what changes were made to your risk appetite/tolerance in the text box provided.
    b. No
    c. Other, please describe in the text box below

If you answered YES or OTHER to question 1, proceed to question 2
If you answered NO to question 1, proceed to the next section.

2. Did the adviser explain to you why he/she asked you to change your risk appetite/tolerance?
    a. Yes, please describe what was said in the text box below
    b. No.
    c. Other, please describe in the text box below

Part 5 – Other observations

Do you have any additional observations that you want to share that were not covered in the preceding sections of the questionnaire?

Thank you for taking the time to complete this questionnaire. Please submit this questionnaire and all documentation collected during your shop within 12 hours of completing of your shop.

-END-

Appendix E – Evaluation benchmarks

Features	Best practices	Compliant practices	Non-compliant practices
1. Collection of personal information/circumstances			
a. The advisor discloses or discusses (verbal or written) the services/products they offer.	i. The advisor provides a detailed explanation of the services and products they offer. ii. The advisor discusses any limitation of the advice they can provide.	i. The advisor provides a general overview of the products and services they offer.	i. No discussion is held regarding the products and services they offer.
b. The advisor explains the risk/return relationship.	i. The advisor uses visual tools or aids to explain the risk/return relationship (e. g. benchmarks are used to describe variations in risk). ii. The advisor provides a detailed explanation of the risk/return relationship in terms of asset categories or investment sectors.	i. The advisor provides a general and balanced explanation of the risk/return relationship (e. g. both risk and return are mentioned and a description of how they interact is provided).	i. No discussion is held regarding the risk/return relationship. ii. An unbalanced discussion is held regarding the risk/return relationship (e. g. focus is on return with little to no explanation of the risk). iii. Misrepresentation (e. g. inappropriate guarantee of returns.)
c. The advisor asks about the client's circumstances and their investment goals.	i. The advisor asks questions and engages in a detailed discussion with the client about life goals and financial goals both in the short and long term (in addition to account specific goals).	i. The advisor asks questions and engages in a discussion with the client about account specific goals both in the short and long term. ii. If the client has an unreasonable expectation of returns, the advisor informs the client of what can be reasonably achieved.	i. No discussion is held about the client's goals and circumstances. ii. If the client has an unreasonable expectation of returns, the advisor fails to inform the client of what can be reasonably achieved.

Features	Best practices	Compliant practices	Non-compliant practices
d. The advisor obtains sufficient and accurate information about the client's personal and financial circumstances (i.e. core KYC information).	i. The advisor uses a set of questions to ascertain the client's investment objective, risk tolerance, time horizon, investment knowledge and tax situation. ii. The advisor uses a methodology in undertaking the KYC process to ascertain the client's personal and financial circumstances. iii. The advisor explains to the client why the information about the client's personal and financial circumstances is being collected. iv. If the advisor is recommending a leveraging strategy or exempt products, additional information including a full cash flow analysis and debt obligations or AI status is supported with documentation. v. If the advisor is recommending exempt products or pooled funds, the advisor explains to the client how they can qualify for a prospectus exemption (e. g. explains what an accredited investor is and how they can meet this requirement). The advisor collects information to support AI status or reliance on other prospectus exemptions. vi. The advisor has a detailed discussion on the client's investment experience.	i. The advisor sufficiently explains and discusses KYC concepts with the client in a clear and concise way that assists the client in understanding what the concepts mean and how the information will relate to investment recommendations. ii. The advisor collects core KYC information including investment objectives and goals, income, net worth, investment experience time horizon and the client's willingness to accept risk. iii. If recommending a leveraging strategy or exempt products, the advisor collects additional information (i.e. income and liabilities) from the client. iv. If recommending exempt products or pooled funds, the advisor collects information to support AI status or reliance on other prospectus exemptions. v. The advisor asks questions about the client's past and current investment experiences.	i. Incomplete collection of KYC information. ii. The advisor does not review core KYC concepts with the client or the KYC concepts are not adequately detailed. iii. Core KYC determinations are made without a reasonable basis or without the client's agreement. iv. The advisor does not collect additional information when recommending leveraging or exempt products.

Features	Best practices	Compliant practices	Non-compliant practices
2. Recommendation			
a. The advisor makes a suitable recommendation that meets the client's relevant personal circumstances.	i. The advisor provides various options to the client with a clear recommendation and explains the benefits and risks and the costs and fees of the options. ii. In addition to explaining how the recommendation meets the account goals, the advisor explains how the investment strategy/products (e. g. asset allocations) align with the client's short or long term life goals and financial goals. iii. The advisor explains how the investment strategy/products meet the client's detailed KYC information. iv. The advisor provides a written Investment Policy Statement (IPS). [22]	i. The advisor makes a suitable recommendation. ii. The advisor makes a fair and balanced presentation of the benefits, risks, key features (e. g. liquidity constraints, tax features) and costs/fees associated with the recommended product or investment strategy. iii. The advisor generally explains how the recommendation meets the investment goals of the specific account and risk tolerance. iv. Where conflicts of interest exist, the advisor provides disclosure to the client about the nature and extent of the conflict.	i. The advisor makes an unsuitable recommendation. ii. The advisor does not make a fair and balanced presentation of the benefits, risks, key features (e. g. liquidity constraints, tax features) and costs/fees associated with the recommended product or investment strategy (e. g. does not talk about the risks). iii. The advisor makes a recommendation prior to collecting KYC information. iv. The advisor does not explain how the recommendation meets the client goals or KYC information. v. The advisor requests that the client change their KYC selections without a reasonable basis for doing so and without informed consent from the client.

[22] This item is specific to PM shops. This may not be available to the shopper as some firms may not provide the IPS until the implementation of the recommendation.

Features	Best practices	Compliant practices	Non-compliant practices
b. If a leveraging strategy is recommended, the advisor ensures that the strategy is suitable for the client.	i. The advisor ensures that the leveraging strategy recommendation is suitable. ii. The advisor makes a fair and balanced presentation of the leveraging strategy including that this is a high risk strategy. iii. If projections are used, several projections (both positive and negative) are discussed and assumptions are clearly disclosed to the client.		i. The advisor recommends an unsuitable leveraging strategy. ii. The advisor fails to discuss the risk of leveraging (e. g. the loan will need to be serviced and re-paid regardless of the performance of the investment). iii. If projections are used, the advisor fails to discuss negative outcomes.
c. If a significant amount [23] of client assets is to be invested in a non-diversified product, exempt products or a particular industry/sector, the advisor has a discussion about asset concentration and the potential risk of having too much money concentrated in these investments.[24]	i. A fair and balanced discussion of concentration risk takes place and the final recommendation made by the advisor is suitable.		i. An unsuitable recommendation is made by the advisor. ii. The advisor fails to discuss concentration risk.

[23] Investments in securities of a single issuer or group of related issuers that represent more than 10% of the investor's net financial assets.

[24] This criterion was assessed in the PM and EMD platforms only.

Features	Best practices	Compliant practices	Non-compliant practices
3. Communication with shopper			
a. Verbal and written communications are in plain language and are presented in a clear and understandable manner.	i. The advisor provides information to educate the client, including using a cross section of tools or aids (e. g. written statements, charts, graphs, examples). ii. The advisor outlines his/her expectations of the client's engagement in the investment process (e. g. frequency of meetings to review portfolio, client's responsibility to review statements).	i. Verbal and written communications are in plain language. ii. The advisor discusses that past performance is not a reliable indicator of future performance. iii. The advisor answers all of the client's follow-up questions in a clear and understandable manner.	i. Verbal and written communications are not in plain language. ii. The advisor fails to answer all of the client's follow-up questions in a clear and understandable manner. iii. The materials provided to the client are not adequately defined or are unclear.
4. Disclosure of fees, charges and compensation			
a. The advisor has a discussion on commission, related charges and fee structures that may apply.	i. The advisor provides specific information on all types of fees that apply and discloses options for fees (e. g. Fee-based, Commission based, DSC versus Front End, Bond Yields). ii. The advisor provides examples of fee calculation. iii. The advisor explains to the client how fees are calculated (e. g. assets under management) and the frequency of billing and other related charges (e. g. custodial or brokerage commissions).	i. The advisor provides a general overview of types of fees and commissions that may apply. ii. The advisor provides a copy of a relationship disclosure document to the client. [25] iii. The advisor discloses and explains any conflict of interest relating to commissions, fee structures and charges.	i. The advisor does not discuss the purpose of fees. ii. The advisor provides misleading or inaccurate information to the client regarding commissions, charges or fee structures. iii. The advisor does not disclose or explain any conflict of interest relating to commissions, fee structures and charges.

[25] Only applicable if an account is opened

Features	Best practices	Compliant practices	Non-compliant practices
b. The advisor has a discussion on compensation and how firm and advisor are paid.[26]	i. The advisor has a detailed discussion with the client on compensation and how a firm and advisor are paid (e. g. trailer fees, bonus structure, referral fees, promotions and/or other remuneration incentives etc.). ii. The advisor discloses and explains any conflict of interest relating to compensation.	i. The advisor provides a general overview of the compensation that may apply to the firm and the advisor. ii. The advisor provides a copy of a relationship disclosure document to the client. [27] iii. The advisor discusses any conflict of interest relating to compensation.	i. The advisor does not discuss compensation. ii. The advisor provides misleading or inaccurate information to the client regarding compensation and how the firm and advisor are paid. iii. The advisor does not discuss any conflict of interest relating to compensation.

[26] Applies to non-salaried/commission based employment
[27] Only applicable if the account is opened

Appendix F – Selected guidance

Ontario Securities Commission

All documents are available at http://www.osc.gov.on.ca.

- CSA Staff Notice 31-334 *CSA Review of Relationship Disclosure Practices* (2013) 36 OSCB 7120 (July 18, 2013)
- CSA Staff Notice 31-336 *Guidance for Portfolio Managers, Exempt Market Dealers and Other Registrants on the Know Your-Client, Know-Your- Product and Suitability Obligations* (2014) 37 OSCB 401 (January 9, 2014)
- CSA Staff Notice 33-315 *Suitability Obligation and Know Your Product* (2009) 32 OSCB 6890 (September 2, 2009)
- OSC Staff Notice 33-740 *Report on the results of the 2012 targeted review of portfolio managers and exempt market dealers to assess compliance with the know-your-client, know-your-product and suitability obligations* (2013) 36 OSCB 5647 (May 30, 2013)
- OSC Staff Notice 33-742 *2013 Annual Summary Report for Dealers, Advisers and Investment Fund Managers* (November 7, 2013)
- OSC Staff Notice 33-745 *Annual Summary Report for Dealers, Advisers and Investment Fund Managers* (September 25, 2014)
- Presentation materials - Registrant outreach sessions on Know-Your-Client and Suitability Obligations (http://www.osc.gov.on.ca/en/Dealers_topical-guide-for-registrants.htm#KYC) (December 2013)

Investment Industry Regulatory Organization of Canada

All documents are available at http://www.iiroc.ca.

- IIROC Guidance Note 09-0087 Best Practices for Product Due Diligence (March 23, 2009)
- IIROC Rules Notice 12-0107 Client Relationship Model - Implementation (March 26, 2012)
- IIROC Guidance Note 12-0108 Client Relationship Model – Guidance (March 26, 2012)
- IIROC Guidance Note 12-0109 Know Your Client and Suitability – Guidance (March 26, 2012)
- IIROC Rules Notice 15-0042 Client Relationship Model ("CRM") – Frequently Asked Questions (revised February 9, 2015)
- IIROC Guidance Note 14-0073 Use of Business Titles and Designations (March 24, 2014)

Mutual Fund Dealers Association of Canada

All documents are available at http://www.mfda.ca.

- MFDA Rule 2.2.1 Know-Your-Client
- MFDA Rule 2.2.5 Relationship Disclosure
- MFDA Rule 2.2.4 Transaction Fees and Charges
- MFDA Rule 2.5 Minimum Standards of Supervision

- MFDA Rule 2.6 Borrowing for Securities Purchases
- MFDA Policy No. 2 Minimum Standards for Account Supervision
- MFDA Staff Notice MSN-0048 Know-Your-Product (October 31, 2005)
- MFDA Staff Notice MSN-0069 Suitability (April 14, 2008)
- MFDA Staff Notice MSN-0074 Leverage Risk Disclosure (May 19, 2010)
- MFDA Staff Notice MSN-0075 Relationship Disclosure (December 3, 2010)
- MFDA Bulletin #0611-C which includes a Paper titled Improving the Know Your Client Process (July 21, 2014)
- MFDA Investor Information Sheet titled Opening Your Investment Account