

March 2018

Guidance to Exempt Market Dealers on Account Opening Procedures

Introduction

On December 19, 2017, the Alberta Securities Commission (the “**ASC**”) published ASC Notice 31-701 – *Account Opening Assistance* (the “**Notice**”) to provide guidance on the collection of know your client (“**KYC**”) information and the performance of suitability reviews by exempt market dealers (“**EMDs**”).

Sample KYC Form

The Notice contains a sample KYC form (the “**Sample KYC Form**”) outlining certain information necessary to help dealing representatives gain information and determine the suitability of financial products for their clients. The Sample KYC Form aims to ensure consistency in the information collected and used by EMDs by providing a foundation for a common understanding of terms such as risk tolerance, investment knowledge and investment experience levels. The ASC expects that firms who adopt the Sample KYC Form will tailor the form to meet the individual needs of the firm and their representatives. The Sample KYC Form can also provide helpful guidance to registrants in other Canadian jurisdictions.

The Canadian Securities Administrators are currently reviewing the requirements under National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and considering implementing certain material targeted reforms. If the

contemplated reforms are implemented, the Sample KYC Form will need to be updated.

Investor Information Document

The Notice contains an investor information document (the “**Investor Information Document**”) called “Account Opening Information for Investors” which is intended to be distributed by the EMDs to clients at the account opening stage. This Investor Information Document is intended to serve as an education tool for investors and provides the rationale for KYC information collection, detailing how each piece of information collected will be used by dealing representatives.

The Investor Information Document states that the ASC’s mission is to protect investors and foster fair and efficient capital markets. The Investor Information Document states investors that exempt market investments are generally considered high risk. The Investor Information Document also advises that dealing representatives have an obligation to deal fairly, honestly and in good faith with their clients. The distribution of the Investor Information Document to clients is at the option of the EMD.

The Investor Information Document recommends that investors and dealing representatives should have a comprehensive discussion about the investor’s personal circumstances including:

1. investment needs and objectives;
2. financial situation;
3. investment knowledge;
4. investment experience; and
5. risk tolerance.

The Notice also provides a summary of certain personal information collected by dealing representatives and the rationale provided by the ASC in the Investor Information Document for collecting such information:

- **investor's full name, address and contact information:** helps confirm the investor's identity under securities laws and anti-money laundering legislation;
- **social insurance number:** needed for tax reporting purposes for investments that pay income;
- **occupation/employer:** aids in understanding the investor's personal circumstances (i.e., capacity to withstand investment losses);
- **number of dependents:** helps understand timing of cash needs and time horizon for investment (e.g., braces, university tuition etc.);
- **whether the investor is an insider of a public company:** helps determine whether insider trading laws must be considered;
- **investment knowledge and experience:** helps assess the investor's potential level of reliance on the advice provided by the dealing representative;
- **investor's income/net worth/net financial assets etc.:** helps determine eligibility for certain investments;
- **risk tolerance:** required to be collected by securities laws for suitability analysis; and
- **source of funds for investment:** required to be collected by anti-money laundering legislation.

The Investor Information Document emphasizes the importance of keeping the client's KYC information up-to-date and advises investors to inform dealing representatives of any major changes in the investor's personal circumstances (i.e., marriage, birth of a child, new job or other events).

Conclusion

While this Notice is published by the ASC, the Sample KYC Form and the Investor Information Document can be helpful to registrants in other Canadian jurisdictions in meeting their KYC and suitability obligations under securities laws.

By Jason Chertin and Valenteena Suvaminathan

For more information on this topic, please contact:

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|---------|---|--------------|--|
| Toronto | Jason A. Chertin | 416.865.7854 | jason.chertin@mcmillan.ca |
| Toronto | Valenteena Suvaminathan | 416.945.8009 | valenteena.suvamination@mcmillan.ca |

a cautionary note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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