



KYC GUIDE

CLIENT SOPHISTICATION/ FINANCIAL KNOWLEDGE



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When using this guide remember:

1. Read your dealer's policy manual on this subject to ensure you are consistent with the dealer's requirements and especially the definitions of the levels of knowledge from "nil" to "sophisticated".
2. Some dealers' policy manuals require the Advisor to use a particular questionnaire, so make sure you can prove that you used the dealer's questionnaire if that is required.
3. If a questionnaire is used, make further inquiries especially if the questionnaire results are inconsistent with the client's apparent level of knowledge and is interested in higher-risk investments.
4. Have a paper trail to support information collected from each client to support the Advisor's choice. It is the Advisor's judgment that must determine the client's knowledge, supported by a paper trail.
5. The quality of the client's questions will also guide the Advisor – always write down the clients' questions to support your choice.
6. This is not a negotiation between you and the client; if they disagree with your choice, take them through the evidence that you are relying on to support your choice.
7. Let the client's evidence guide you. Therefore, do not reverse engineer: if the client wants complicated products and you know compliance will not approve the purchase of those higher risk securities without at least some level of knowledge, do not increase it on the form for this purpose.

Disclaimer: This guide is not legal advice nor does it contain law. This guide is not to be used instead of or inconsistently with your dealer's policy manual. Remember, noncompliance with your internal policy manual is a breach of regulatory requirements. The questions and answers are only samples and are not to be applied rigidly. It is most important to listen to clients' answers and use your professional judgment and always have a paper trail to support each portion of the Know Your Client form. © Babin Bessner Spry LLP. All rights reserved.

NI 31-103 Criteria	Potential questions to gauge client understanding	Potential answers* to interpret the degree of client financial knowledge**
1. Knowledge of financial markets	What is your education, either formal and/or self-education, relating to markets or finance?	Education as it relates to markets and finance: Nil: None-ex. no post-secondary/no education as it relates to markets Fair: Some-ex. hotel management in which very basic accounting, economics, and finance are provided Good: A business degree with a major in finance, accounting, and public companies including knowing how to read financial statements and interpret them using ratio analysis Sophisticated: MBA or Ph.D. in market-related education
	What are your hobbies/how do you spend your leisure time?	Hobbies: Nil: Anything that does not include any numbers or markets – ex: gardening, sports, the arts Fair: Client spends some time reading business-related newspapers and magazines, content from business-related podcasts, or social media and has some level of interest and understanding Good: Enjoys following business media and markets and has a higher degree of understanding Sophisticated: Day trading on their own online account
	Work Experience	Work Experience: Nil: Nothing relating to numbers or markets Fair: Bookkeeping and anything that includes working with numbers Good: Work associated with public markets and financial analysis associated with public markets; accountants or lawyers who work in the financial services industry or who work for public companies and can read and understand financial statements Sophisticated: Someone who has recently or substantially worked in the financial services industry and who has a deep understanding of the markets, products and risks, or someone working in market analysis for a company, like a charity

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	Understands different aspects of the market and products	Understands the following aspects of the market and products to varying degrees: a) Can you name one of the stock exchanges? Nil: no; Fair or Good: understands the difference between TSX and TSX Venture; or Sophisticated: understands what and how a junior company can qualify for the TSX b) What is the difference between a stock and a bond? Nil: no idea; to Fair or Good: provides a basic explanation; and Sophisticated: trades regularly and understands the market impacts on each c) What is the difference between an ETF and a mutual fund or a pooled fund? Nil: no idea; Fair or Good: basic understanding of how an investor qualifies for the pooled fund and why it is less expensive than a mutual fund; Sophisticated: regularly trades in both and understands the differences d) What is the difference between large and small-cap companies? Nil: no idea; Fair or Good: has a basic understanding; Sophisticated: can explain in detail using examples e) What is the difference between interest and dividend income? Nil: no idea; Fair or Good: can explain how each applies and tax implications; Sophisticated: a deep understanding
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2. Relative risk and limitations of various types of investments available to the dealer	Market Risks: Do they understand the fluctuations of the market and how it impacts particular investments?	Market risks: Gauge understanding based on the following questions: - What would make the market go up or down? - What is a bear market versus a bull market?
	Product Risks: Do they understand the risks associated with different products?	Product Risks: Gauge understanding based on the following questions: - What would make the risk of any product go up or down? - What are the different risk criteria found in a prospectus? - What is the level of potential risk associated with specific products: GICs, balanced mutual funds, small cap mutual funds, small-cap stock? - Whether they understand the difference between a GIC and a share that trades on the stock market? - Do you understand diversification and whether it is more or less risky to diversify or not?

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3. How the level of risk taken affects potential returns?	Do you understand different types of risks and how they impact returns?	How do the following risks impact returns of any one investment product: - Countries in which the company is operating, for example, a country where there is severe political unrest like war - The relevant industry, for example, one in which there is a very low supply and big demand - Change of C-suite, especially the CEO/President Interest rate fluctuations
	How does the risk of any stock you invest in impact returns?	Sample answers: Poor: I have only invested GICs in the past so I don't know anything about the risk of stocks Fair: If the risk of the product is high, I am not sure but I think I could make more money Good: My understanding is if risks are high, I stand to make more on my investment than if I invested in a very low-risk product, but I could lose more too Sophisticated: I would need to perform a full risk analysis

NI 31-103 Criteria	Potential questions to gauge client understanding	Potential answers* to interpret the degree of client financial knowledge**
4. Client's awareness and previous experiences with finances and investments (depending on types of products advisor is licensed to sell)	What is your investment experience, generally?	Nil: I have never invested before Fair: I have had a basic RRSP, TFSA, RESP, and some limited investment experience with an advisor or portfolio manager Good: I have done some online investing, have had an active investment portfolio and/or investing with an advisor in which they participate in the choice of stocks Sophisticated: I have a significant investment portfolio, and have invested independently (online) as well as accounts with certain dealers to get access to certain trading that might not otherwise be readily available to me
	What types of investments have you invested in previously?	Nil: I leave that entirely to my advisor/portfolio manager Fair: I listen to my advisor who makes suggestions that I readily accept Good: I listen to my advisor's recommendations but I don't always take their advice, and I also make suggestions that I ask them to research, consider, and discuss with me but I always follow their advice Sophisticated: I make most decisions on my account and after I research it I discuss it with my advisor who does their analysis and we compare views
	How have you made decisions in the past in respect of the choice of securities?	Nil: I don't know Fair: I think mutual funds and GICs Good: Can name the investment types with certainty – stocks, bonds, pooled or mutual funds Sophistication: Can name the investment types which include more complicated product types and can explain the types of products they are invested in and why these types were chosen
	What types of accounts do you have with your investment dealer/advisor?	Nil: I have no idea Fair: I have a retirement account and not sure what else (i.e. can name one type) Good: (says without hesitation and with confidence) I have an RRSP, TFSA, RESP, and US cash account Sophisticated: I have an online RRSP and TFSA and Margin account and I do all of my own tradings

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	What securities are you currently invested in?	Nil: I am not sure. Is a GIC a security? Is a Mutual fund security? (note they cannot identify which securities they are invested in) Fair: I have some mutual funds. Follow-up questions: Do they know the types of securities in the funds, etc.) Good: I can name the particular stocks and bonds and/or funds/ETFs I have invested in or can identify the sectors and the types Sophisticated: I trade daily so I stick with ... and how I choose my investments is... doing my own research and analysis... I have a margin account for my options and derivative trading... Follow up question: What is your investment philosophy? What types of analysis do you conduct?
	What questions does the client ask - advisors need to write down the actual questions as they reflect client sophistication	Questions the client asks about reflection on investment knowledge: Sophisticated: likely very few clients fall into this category as the sophisticated client understands processes behind the scenes and the mechanics of the products. They may ask any of the following questions: - How does my licensed advisor build portfolios? - What is your investment philosophy? - What is your decision framework, asset allocation methodology, models? - How will you attach a discipline to ensuring the portfolio is diversified - What is the rebalancing process? - How do you rebalance so many clients at the same time and which clients could be disadvantaged in that process and how? - How do you ensure the best price trade execution and be able to prove it? - Do you have any composite performance data on the solutions you oversee? - When things get bumpy what is the risk management plan? - Who do you go to for analysis/review of your processes and decision-making framework to learn and grow? - What are the tax implications ...?
	Your statements and other materials were received	Your statements What do you do when you receive your statements, either hard copy or notification that online statement is available? If they need prompting you can ask them: - Do you open them each time available? - What do you look at? What is your review process? - Do you ever ask your advisor questions based on the statements? If so, what questions? Nil: I never open or read my statements Fair: I review the bottom line - is the total sum in the account higher or lower than the last statement Good: I review each investment and observe the transactions and how each is performing and I consider why each would be performing as such and I might look at SEDAR for the recent filings and review and analyze these Sophisticated: I don't need to look at my statements for performance because I am reviewing the performance in real-time. Only if I don't have time to check my confirmations, I might use the statements to ensure the transactions are consistent with my instructions

***Potential answers** – these are just some examples of potential answers.

****Definitions used for this guide** – please see your dealer's definitions and adjust accordingly

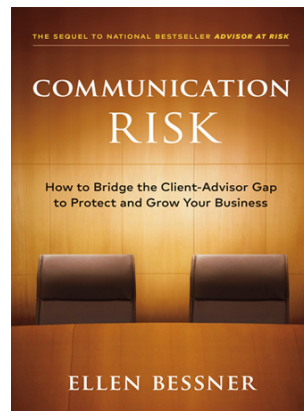
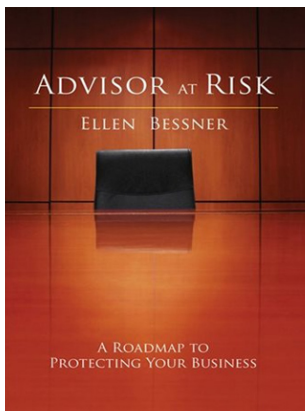
Nil: the client has **no to limited knowledge of investments and financial markets and will rely** on the representative

Fair: the client has **some knowledge of investments and financial markets** but will need information and **guidance** from the representative

Good: the client has **good knowledge of investments and financial markets and is aware of the information reported by the media**

Sophisticated: the client has **solid knowledge of investments and financial markets, understands the various investment products, and follows the financial markets closely**

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