



# Policies and Procedures Manual

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## **INTRODUCTION**

This Policies and Procedures Manual (“PPM”) is designed as a reference for Brokers and Employees of Strategic Alliance Financial Group Inc (“SAFG”). The PPM outlines the general procedures and policies by which business is conducted at SAFG. As members of the insurance and investment (financial services) industry, SAFG is subject to regulation by various provincial insurance and investment (financial services) regulatory authorities and self-regulatory organizations such as FINTRAC, Financial Services Commission, etc. The policies and procedures as set out in the PPM are designed to ensure compliance, not only with the rules set by these organizations and the laws under which these rules are promulgated, but also with the highest standards of ethical conduct and good business practice.

Any contravention of these policies by a Broker or Employee may result in SAFG taking disciplinary action up to, and including, terminating its relationship with that individual.

Brokers and Employees must not only be familiar with these policies and procedures but must comply with the spirit as well as the letter of them. Brokers and Employees should direct questions about the contents of the PPM to their Compliance Officer or to the Compliance Officer of SAFG.

## **GUIDELINES OF CONDUCT**

SAFG strives for the highest degree of ethical corporate conduct and recognizes that clients and the public have a right to openness and honesty in all their dealings with them.

Brokers. SAFG demands and expects the highest standard of personal integrity from all Brokers and Employees. In turn, SAFG endeavors to ensure that all of its policies and procedures create an environment of the highest ethical standards. Service is built on trust and integrity that is essential to the continued success of any business and this is especially true of the insurance and investment (financial services) industry. Along with the laws and regulations that affect our business, there are many ethical considerations that must be adhered to so that all SAFG Brokers and Employees can continue to uphold the highest standards of business integrity.

## **LAWS AND REGULATIONS**

SAFG Brokers and Employees must diligently observe all financial services laws and regulations. Brokers and Employees must also ensure that their dealings and actions comply with the spirit and intent of all relevant legislation and regulations, published by a government life insurance company. Ignorance of the law is not an excuse and will not be accepted by SAFG. Where there is doubt about the legality of a particular issue, contact the Compliance Officer at SAFG.

## **CODE OF ETHICS**

It is fundamental to the fair treatment of investors that all Brokers and Employees, Officers, and Directors of SAFG maintain and continue to adhere to the highest standards of integrity and ethical business conduct. The client’s interests must be the foremost consideration in all business dealings. All methods of soliciting and conducting business must be such as to merit public respect, and all personal business affairs must be conducted in a responsible manner. All Brokers and Employees must report any contravention of this Code to the Compliance Officer. Breach of this Code may be grounds for a warning or possible dismissal. All Brokers,

Employees, Officers, and Directors must cooperate in any investigation of possible breaches of this Code.

This Code of Ethics establishes the principles that all SAFG Brokers shall follow. These norms are based upon the highest ethical standards of trust, integrity, justice, fairness, and honesty. They are not limited to strict compliance with "the letter of the law" but also shall foster compliance with the "spirit of the law".

1. Brokers shall provide services and fulfill obligations with integrity and in good faith.
2. Brokers shall provide services competently and fairly.
3. Brokers shall provide services with proper care, diligence, and professional knowledge.
4. Brokers shall conduct themselves in a professional manner that reflects positively on themselves, their firms, and their industry.
5. Brokers shall strive to meet the needs of their clients and always act in the client's best interest.
6. Brokers shall disclose all conflicts of interest that arise in providing client services.
7. Brokers shall hold client information in the strictest confidence and respect the privacy of others at all times.
8. Brokers shall adhere to all industry regulations and respect both the spirit and letter of the law.

## **CONFIDENTIALITY**

All personal information obtained from a client must be held in the strictest of confidence. Given the nature of this information, it is imperative that this information be properly safeguarded to protect its confidentiality. Under no circumstances is personal client information to be released to anyone, except as required by legal process or statutory authority, without the prior written consent of the client. At no time should anyone other than the client benefit from confidential client information.

## **HUMAN RIGHTS**

In accordance with all applicable human rights legislation, SAFG will not permit discrimination or harassment of any Broker or Employee on the grounds of race, ancestry, colour, creed, place of origin, ethnic origin, citizenship, sex, sexual orientation, age, marital status, family status or handicap.

## **COMPLIANCE FUNCTION & PROCESS**

In accordance with SAFG's overall purpose of providing financial planning and investment services for its clients, the Compliance Department has the mandate to ensure a positive and profitable working environment and to assist SAFG in maintaining the highest standards of integrity and responsible client service. The Compliance Department will use all of its resources to ensure that SAFG complies with all regulatory requirements.

## **COMPLIANCE RISK MANAGEMENT**

The strategic objectives of the Compliance Department are:

- To assist Brokers and Employees in their roles to ensure proper regulatory compliance by SAFG; and
- To maintain the highest standards of integrity by SAFG, its Brokers and Employees in dealing with clients.

The Compliance Department must ensure that there is effective control over regulatory and compliance issues. An ever-changing regulatory environment makes it imperative that SAFG have, and be perceived to have, a structured and working system in place to ensure that Brokers, Employees, and our clients do not breach any industry rules or regulations.

These critical objectives are embodied in three guiding principles:

1. Create awareness of industry rules and regulations and SAFG policies to all Brokers and Employees.
2. Monitor adherence to ensure that there is effective control by the Compliance Officer and.
3. Ensure enforcement of compliance policies and guidelines by those responsible for supervision.

## **COMPLIANCE RESPONSIBILITY & ACCOUNTABILITY**

The Compliance Officer will ensure all statutes; policies and regulations are adhered to in the following ways:

- Participate with Head Offices of Life Insurance Companies and industry self-regulating bodies in the design, implementation, and monitoring of a compliance program.
- Participate in setting compliance standards and objectives for the organization.
- Participate in setting standards of ethics and conduct for all SAFG personnel.
- Develop processes to ensure that everyone connected with SAFG meets the standards.
- Report to Senior Management any compliance issues that may have an impact on the organization.
- Compile all pertinent information regarding compliance issues and distribute throughout the organization; and
- Develop, distribute, and update all compliance policies. In addition, the Compliance Officer's responsibilities include:
  1. Review all business transactions (such as applications etc.) and ensure maintenance of records.
  2. Analyze problems and develop solutions.
  3. Investigate client complaints in conjunction with the Broker/Agency.
  4. Conduct annual examinations of Brokers/Agencies.
  5. Provide regular and on-going information to SAFG personnel on compliance related matters.
  6. Provide training to Brokers – to ensure compliance standards are met and problems are minimized; and
  7. Link with various organizations as assigned (Financial Services Council, FINTRAC, IFIC, Media, Insurance Council etc.).

## **INTERNAL INVESTIGATION PROCEDURES**

SAFG's compliance regime includes the performance of rotational Broker/Agency meetings. These meetings are necessary to ensure that all Brokers operate at a consistently high level of compliance. These meetings would/could include completion of a CLH 1A Standardized MGA Compliance Review Survey (Refer to Appendix) to:

1. Assess compliance with applicable legislation.
2. Assess compliance with the policies set out in the Compliance Manual and other corporate policies, as applicable.
3. Assess the sales and market practices of Brokers.
4. Allow SAFG to fulfill its statutory obligations regarding supervision.

Review of Marketing's compliance issues:

1. Review a sample of a minimum of 10 client files for the following:
2. Suitability of client portfolios
3. Current Know-Your-Client information.
4. General organization of files
5. Documentation of client conversations/instructions
6. Review of correspondence and other evidence for unusual or unethical activity:
7. Direct discussions with insurance companies regarding co-operative marketing
8. Review of advertising/sales communications

Interview of Broker and discuss the nature of their practice, covering such areas as:

1. Client prospecting
2. Marketing
3. Complaints received/recent issues resolved or outstanding.
4. Products/services offered other than mutual funds.
5. Look for evidence of problems and/or non-compliance.

## **COMPLAINTS**

A "complaint" shall be deemed to include any written or verbal statement of grievance, including electronic communications from a client, former client, or any person who is acting on behalf of a client and has written authorization to so act, or of a prospective client who has dealt with SAFG or a Broker of SAFG, alleging a grievance involving SAFG, a Broker of SAFG or former Broker of SAFG, if the grievance involves matters that occurred while a Broker of SAFG.

Any communication, whether verbal or written, which implies any of the following, must be brought to the attention of the Compliance manager at SAFG for documentation and discussion:

- Inappropriate advice
- Negligent service
- Fraud
- Misrepresentation
- Aggressive or other unethical sales practices
- Money laundering
- Other unethical behaviour
- Other material non-compliance with legislation or company policy

The determination of materiality is obviously an inexact process in which the judgment of the Broker, Administrative Staff must be used.

Request by client to change Brokers within SAFG resulting from a complaint re: service.

Each client who submits a complaint to SAFG must be treated with dignity and respect and his/her complaint must be dealt with in good faith.

Brokers are required to report all client complaints to the Compliance Officer at SAFG. The Compliance Officer should ensure that:

1. The Broker obtains a written version of the complaint from the client, and he/she is provided with a copy of this letter; and
2. If the client refuses to provide a written version of the complaint, the Broker provides the Compliance Officer with a written summary of the complaint.

Upon receiving the complaint from either the client or the Broker, the Compliance Officer should:

1. Record the details of the complaint:
  - The date of the complaint
  - The client's name.
  - The Broker's name.
  - The services which are the subject of the complaint.
  - The date and conclusions of the decision rendered.
2. The Compliance Officer at the appropriate Life Insurance Company should be informed by email with details as soon as possible and file a set-up.



## **DUTY TO ASSESS ALL COMPLAINTS**

SAFG has the duty to engage in an adequate and reasonable assessment of all complaints.

All complaints are subject to the complaint handling requirements as set out by Life Company Compliance Officers. Complaints must be assessed to determine whether, in the reasonable professional judgment of SAFG's supervisory staff handling the complaint, they should be further investigated.

- A breach of client confidentiality.
- Unsuitable investments or leveraging (except for non-clients)
- Theft, fraud, misappropriation, forgery, misrepresentation, unauthorized trading.

## **MINIMUM REQUIREMENTS FOR COMPLAINTS SUBJECT TO INFORMAL RESOLUTION**

Any complaints that are subject to informal resolution must be handled fairly and responded to promptly.

Where a complaint subject to informal resolution is received in writing, SAFG must provide its substantive response in writing.

## **SAFG ASSISTANCE IN DOCUMENTING VERBAL COMPLAINTS**

SAFG should be prepared to assist clients in documenting verbal complaints where it is apparent that such assistance is required.

## **CLIENT ACCESS**

SAFG must ensure that information about its complaint handling process is made generally available to clients and Brokers so that they are informed as to how to file a complaint and to whom they should address a complaint. An example would be posting its complaint handling procedures on our website.

SAFG's complaint handling procedures provide a specific point of initial contact at head office, the Compliance Officer, for complaints or information about SAFG's complaint handling procedures.

## **FAIR HANDLING OF CLIENT COMPLAINTS IN COOPERATION WITH LIFE COMPANY COMPLIANCE DEPARTMENTS**

To achieve the objective of handling complaints fairly, SAFG's complaint handling procedures include standards that allow for a factual investigation and an analysis of the matters specific to the complaint. SAFG does not allow complaints to be dismissed without due consideration of the facts of each case. There must be a balanced approach to the gathering of facts that objectively considers the interests of the complainant, the Broker and SAFG. SAFG's analysis must be reasonable. SAFG's review of the complaint must result in SAFG's substantive response to the complainant.

## **PROMPT HANDLING OF CLIENT COMPLAINTS**

SAFG must handle the complaint and provide its substantive response within the time-period expected. The time-period may vary depending on the complexity of the matter. SAFG should determine its substantive response and notify the complainant in writing in most cases within three months of receipt of the complaint.

Further, if the complainant fails to co-operate during the complaint resolution process, or if the matter requires an extensive amount of fact-finding or complex legal analysis, time frames for the substantive response may need to be extended. In cases where a substantive response will not be provided within three months, SAFG must advise the complainant as such, provide an explanation for the delay, and provide SAFG's best estimate of the time required for the completion of the substantive response.

## **GENERAL COMPLAINT HANDLING REQUIREMENTS**

1. All client complaints and supervisory obligations must be handled by compliance staff.
2. Each Broker must report complaints.
3. Senior management at SAFG must be made aware of complaints of serious misconduct and of all legal actions.
4. SAFG must maintain a Client Complaint Log and must report all complaints to the appropriate life insurance company and must be able to detect frequent and repetitive complaints made with respect to the same matter which may, on a cumulative basis, indicate a serious problem.
5. Follow-up documentation for all complaints.

## **DISCIPLINE**

Brokers who are found to be in breach of, or in violation of, SAFG's Code of Ethics, Policies or Procedures contained in this Compliance Manual, Compliance Bulletins, Administrative Bulletins or otherwise in breach of, or in violation of, any applicable laws, regulations or regulatory policies, or to be conducting himself or herself in a manner which SAFG determines to be unethical or not meeting the standard of good business practices, may be subject to such disciplinary action as determined by SAFG. Every effort will be made to provide the appropriate level of training, adequate time to comply with requirements and sufficient warning that requirements are not being adequately met.

At the sole discretion of SAFG any one or more of the following actions may be taken:

- Termination.
- Withholding of commissions or bonus.
- Close supervision.
- Reassignment of certain clients to another Broker

## **GENERAL EVENTS TO BE REPORTED**

SAFG shall report to the appropriate life insurance company:

1. All client complaints in writing, against SAFG or a current or former Broker, relating to SAFG business.
2. Whenever SAFG is aware, through a written or verbal complaint or otherwise, that SAFG or any current or former Broker has or may have contravened any law or regulatory requirements, relating to:
  - i. Theft, fraud, misappropriation, forgery, money laundering, misrepresentation.
  - ii. A breach of client confidentiality.

## **NEW INVESTMENT OR FUNDED UNIVERSAL LIFE POLICIES AND KNOW-YOUR-CLIENT (“KYC”) INFORMATION**

### **COLLECTING AND RECORDING KYC INFORMATION**

Brokers must comply with all the rules and regulations, including the “Know Your Client” and “suitability” rules, as set out under the respective provincial Securities Act and FSC Rules. Brokers shall gather and analyze as much information as he/she deems necessary to make a suitable recommendation for the client. The minimum amount of information that a Broker is required to gather is listed on the KYC Form. This represents the absolute minimum amount of KYC information required. A Broker would be expected in almost every instance to gather and analyze additional information about the client.

In describing the KYC Rule, securities legislation requires Brokers to use due diligence to:

- Learn the essential facts relevant to a client (i.e. age, net worth and earnings, investment knowledge, investment objectives) before choosing investment options and to maintain and update this information on an ongoing basis.
- Learn the essential facts relevant to every investment application accepted and to ensure that this acceptance is within the bounds of good practice; and
- Ensure that the recommendations made for an account are appropriate for the client and in keeping with his or her investment objectives.

The KYC Form requires the Broker to obtain a considerable amount of information from the client. Brokers should be prepared to explain the significance of each of the questions on the Form. KYC updates should be completed every two years, at minimum. The following list comprises the most common items from the forms and the significance of each item.

1. Name & S.I.N.: The client’s full legal name and S.I.N. are required to properly identify the client, as well to properly register accounts with Revenue Canada where necessary.
2. Marital Status: This information allows the Broker to gain a better understanding of the financial resources available to the client. If the client is married and opens a joint account with their spouse, consistent KYC information is required from both parties (see Joint Accounts, section 5.3.4.).
3. Permanent Address: Post office boxes and temporary addresses are not permitted (unless the client lives in a rural area), to ensure that the client is properly identified and to avoid disputes over the delivery of required

- documents, such as confirmations and statements. The Broker must obtain instructions in writing from the client before redirecting mail to another location or holding mail (see Hold Mail, section 8.2.6.1).
4. Home & Business Telephone Numbers: Both home and business phone numbers are needed to verify identification and to contact the client immediately should a transaction or an account position warrant immediate contact.
  5. Date of Birth: Clients must be of the age of majority in the jurisdiction in which they reside to open an account. The client's age is required to confirm he/she is of the age of majority as well as to complete a proper analysis of the client's retirement income needs.
  6. Client Occupation, Employer, and Type of Business: This information will assist the Broker in gaining a better understanding of the client's personal and financial circumstances.
  7. Client Identification/Banking: Personally verified and recorded client identification and banking information is required to comply with the Money Laundering Terrorist Financing Legislation and to establish client identity and credit worthiness.
  8. Investment Knowledge: The client's knowledge of investment matters provides the Broker with a measure of the degree of guidance that the client will require in working towards achieving his/her investment objectives. The Broker must balance the client's knowledge with the investment products available ensuring that the degree of risk the client assumes is consistent with their ability to assume this level of risk.
  9. Income & Net Worth: The client's income and net worth information is required to demonstrate to regulatory authorities that the gathering of the KYC information is complete, as regulators invariably check KYC Forms for the existence of this information. It is also crucial information for taking the client through the financial planning process. In evaluating net worth, the Broker should only consider the paid-up portion of the client's assets. The net worth and annual income figures may be an approximation or a range.
  10. Plan Type: Indicating the type of plan (i.e. Open, RRSP, LIRA, etc.) is important so that the KYC information relating to the type of plan, in the cases where the client has more than one type of plan, can be easily identified, reviewed, and approved.
  11. Plan Owner: Indicating the owner of the plan (i.e. Individual, Tenants in Common, Joint with Rights of Survivorship, etc.) is important so that the KYC information relating to the type of plan, in the cases where the client has more than one type of plan, can be easily identified, reviewed, and approved. This is also important in cases where the plan needs to be registered, to ensure it is registered properly. Furthermore, Plan Owner is important for Joint plans to ensure all KYC information is obtained for both parties.
  12. Risk Tolerance: It is critical that clients fully understand and accept the risks they are undertaking with their investments. If there is any single piece of information that should most closely be scrutinized in relation to "suitability, this is it.
  13. Investment Objectives: Brokers, from discussions with the client, must determine and document the client's investment objectives as clearly and precisely as possible. Clients who do not wish to provide their investment objectives could pose a greater degree of risk to both the Broker and to SAFG. Accordingly, the client should be advised that without the investment objectives, the Broker is not able to accept the account.

14. Time Horizon: The length of time that the client expects the account to remain invested. Short time horizons are generally requiring less volatility and risk, while long time horizons can withstand these factors to increase potential returns.
15. Leverage: Leveraged investing is defined as borrowing money to finance an investment. There are a variety of lending programs available in the marketplace which can be utilized for investment purposes. These may or may not require the pledging of collateral such as the equity in one's home or securities including mutual funds. Although borrowing for the purpose of RSP investment is typically viewed as a lower risk strategy than other leverage practices it must still be regarded as leveraging for the purposes of providing the required leverage disclosure to a client. (see Leveraging)

## **ACCOUNT AND INVESTMENT APPLICATION FOR INVESTMENTS IN SEGRAGATED FUNDS AND UNIVERSAL LIFE**

Brokers are required to use due diligence to ensure that “each order accepted, or recommendation made for any account of a client is suitable for the client and in keeping with the client’s investment objectives”. To meet this obligation, Brokers must obtain and maintain complete, timely and accurate KYC information. Without this information, a determination cannot be made as to whether a recommendation is suitable for a client.

Client risk tolerance, investment objectives and time horizon noted in the KYC information give direct information regarding what is suitable for a client. These three elements must be directly compared against the assets in the client’s account to ensure that the trades are suitable. The other categories (investment knowledge, annual income, net worth, and age) serve two main functions. Firstly, they are used in assessing the suitability of any leveraged loans and secondly, they can be used as a check against the three categories that give direct information regarding whether the investments are suitable for a client. For example, if a 70-year-old client is shown as having a high-risk tolerance and little or no investment knowledge, it is indicative of a situation which would require follow up.

### **RISK TOLERANCE SUITABILITY**

It is important that clients understand risk and the risk/return trade-off that affects all investments. The greater the risk the greater the potential return coupled with the greater potential for losses. When we talk about risk, we are talking about volatility and certain clients will understand the concept better in this light.

When we ask a client what their tolerance for risk is, we are referring to the assets they hold within a particular account. A client may be prepared to take additional risk with their open money account than with their registered retirement account. Other clients may be averse to greater risk in any of their accounts. We are also concerned only with the assets that the client holds with SAFG and not their full investment portfolio which may be partially managed elsewhere, and which may have different objectives. This area will require the greatest discussion with the client and receives the most scrutiny by supervisors and regulators. Make sure this subject is clear to the client.

Risk tolerance should be the lower of the investor’s willingness to accept risk and the investor’s ability to withstand declines in the value of his or her actual ability to withstand financial losses. Risk tolerance therefore should be determined as the lesser of both criteria.

In some cases, there is a difference between the risk a client is willing, or can take, and the return the client expects, which can result in a Broker assessing risk tolerance higher than it should be in an attempt to meet client expectation.

There are also instances where Brokers may be determining client risk tolerance as the result of a combination of other KYC criteria. While other KYC criteria, such as income, net worth, and time horizon, should be considered and discussed with clients when assisting them in understanding risk tolerance and how they factor in to risk and return, these criteria should not override the client’s ultimate assessment of their actual willingness and ability to accept risk. Brokers cannot substitute their own judgement for that of the client.

## **RISK TOLERANCE LEVELS**

Low: Willing to accept minimum fluctuations in asset value and very limited volatility. Guaranteed products such as GIC's and money market funds are well suited to this level. Bond funds may also be appropriate, as may a limited exposure to asset allocation funds for example.

Moderate: Willing to accept moderate market fluctuations with potential for loss. This category of investor accepts that market exposure comes with the risk of downward movement. They accept that investments they make are either longer term in nature and will very likely perform over time, or, if shorter term in nature, are unlikely to have a significant impact on their net worth. Many mutual funds would generally be appropriate for this category of investor if in a diversified portfolio, including specialty funds at a small percentage. A mix of bond funds and equity funds are most appropriate as are balanced funds and asset allocation products.

High: Willing to endure wide swings in market fluctuations and to withstand losses in asset value. Client recognizes that to obtain superior returns, they must generally accept the possibility of losing capital, including that of a more permanent nature. They are willing to allow a fair level of volatility and/or accept limitations on the liquidity of their investment. Even this category of investor, however, is generally not willing to place a significant portion of their investable net worth into securities with the risk of total loss of

capital. As such, while virtually all forms of securities would be appropriate for this investor, proportions of sector, specialty and venture capital funds would normally be restricted.

## **INVESTMENT OBJECTIVE SUITABILITY**

Investment objectives are stated as a percentage. A client can state an investment objective as 50% income and 30% growth and 20% aggressive growth. When assessing investment suitability, it is necessary to determine whether the particular investment or trade meets the objectives of the account.

## **TIME HORIZON SUITABILITY**

The characteristics of a particular investment should be suitable given the client's stated time horizon. Mutual funds are generally considered medium to long term investments.

A client's stated time horizon is most important when considering the fee structure of a mutual fund. Generally, it is considered unsuitable for a client to be put into a DSC fee fund and have a time horizon that is shorter than the DSC schedule and, at a minimum, a client's time horizon should never be 3 years or less if DSC fee funds are purchased. A time horizon suitability analysis of investments with liquidity restrictions should also be performed. If the stated time horizon is less than the liquidity restrictions, the investment is not suitable for the client.

## **DOCUMENTATION GUIDELINES**

To protect your practice from regulatory and legal risks, you need properly documented client files. The purpose of this section is to share suggestions in an attempt to work towards developing formal documentation standards for the entire organization.

Properly documented client files serve many purposes. Most importantly, they provide a third party, such as a regulator or plaintiff's lawyer, with a clear, concise, and defensible history of your dealings with the client. Third parties do not have the detailed knowledge of your client and their affairs, so it is important to remember that what may seem trivial to you from a documentation perspective, may be very important to a third party.

### **TO DOCUMENT OR NOT TO DOCUMENT**

In deciding whether to document a particular event for the client's file or retain a particular document on the file, consider the relevance. Did the event, or does the document, represent a decision on the client's portfolio? If so, the event should be documented, or the document retained. If not, there may not be good reason to retain the document.

You should also prepare and retain notes of any discussions, interviews, meetings, or conversations relating to the preparation, completion or execution of the decision point documents. Try to follow a standard procedure in preparing these notes which will ensure their consistency. You should only retain additional documents, such as investment product information (charts, graphs, and narrative descriptions) if they relate to a decision you have made on the client's portfolio. Retaining these "decision-point documents" represents the first level of required client file documentation.

### **DOCUMENTING CLIENT OBJECTIVES**

It is important to understand the difference between the client's objectives and the strategies implemented to achieve those objectives. Objectives are tangible goals that the client wishes to achieve. Strategies are asset allocation mixes, generally between capital preservation, income, and growth investments.

We suggest that Brokers take enough time to fully appreciate and document client objectives. All objectives generally contain the following three characteristics, so you can document an objective by asking questions in terms of the objective's characteristics:

- Timeline – when is the client looking to achieve the objective?
- Threshold – what is the minimum amount of dollars or return needed to consider the objective achieved?
- Purpose – what does the client want to do with the proceeds of the investment once the timeline is reached, assuming the threshold is met?

It is important to include the client's objectives in the file as an additional benchmark for assessing suitability. Ensure that each transaction that you assess for suitability is consistent with one or more of the client's objectives.



## **FIRST LEVEL DOCUMENTS**

KYC information, financial plans, applications, forms, suitability assessments, notes of client discussions of a transactional nature, beneficiary change, Advisor Disclosure Documents and signed illustration etc.

## **SECOND LEVEL DOCUMENTS**

Account statements (one sub-group), client correspondence, notes of meetings and discussions of a general nature (another sub-group). You should file information within each sub-group in chronological order. Keeping the first and second level documents separate will give both yourself and third parties quick access to the most important information within the file. Other filing structures may be perfectly acceptable provided they provide a clear accessible record of client business with SAFG.

## **ANTI-MONEY LAUNDERING LEGISLATION**

The objective of the Canadian legislation called The Proceeds of Crime (Money Laundering), and Terrorist Financing Act is to help detect and deter money laundering and the financing of terrorist activities. It is also to facilitate investigations and prosecutions of money laundering and terrorist activity financing offences. This includes implementation of reporting and other requirements for financial service providers and those that engage in businesses, professions, or activities susceptible to being used for money laundering or terrorist financing. The Act also established the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) as the agency responsible for the collection, analysis, and disclosure of information to assist in the detection, prevention and deterrence of money laundering and terrorist financing in Canada and abroad.

This legislation requires various entities to report suspicious transactions to FINTRAC. These entities include financial entities such as banks and credit unions, Life Insurance Companies, brokers and agents and securities dealers amongst others. The FINTRAC web site at [www.FINTRAC.gc.ca](http://www.FINTRAC.gc.ca) contains a number of guidelines that assist in describing the requirements of the legislation. The legislation also requires various client identity and record keeping procedures and large cash transaction reporting requirements.

## **SUSPICIOUS TRANSACTIONS**

Suspicious transactions are financial transactions that there are reasonable grounds to suspect are related to the commission of a money laundering offence or are related to the commission of a terrorist activity financing offence. Under Canadian law, a money laundering offence involves concealing or converting property or the proceeds of property (e.g. money), knowing or believing that these were derived from the commission of an offence referred to in section 462.31 of The Criminal Code.

These offences include the following:

- Illegal acts (apart from simple possession) in relation to various controlled drugs and substances
- Bribery of judicial officers
- Child pornography
- Frauds against the government

- Corrupting morals
- Keeping a gaming or betting house
- Betting, pool-selling, and bookmaking
- Breach of trust by a public officer
- Forgery
- Murder
- Robbery
- Secret commissions
- Keeping a common bawdy house
- Procuring juvenile prostitution
- Fraudulent manipulation of stock exchange transactions
- Possessing, issuing, or circulating counterfeit money
- Theft
- Extortion
- Fraud
- Money increment schemes

A terrorist activity financial offence includes knowingly collecting or providing property, such as funds, either directly or indirectly, to carry out terrorist crimes. This includes inviting someone else to provide property for this purpose. It also includes the use or possession of property to facilitate or carry out terrorist activities.

## **IDENTIFYING SUSPICIOUS TRANSACTIONS**

A suspicious transaction may involve several factors that may seem individually insignificant but together may raise suspicion that the transaction is related to the commission of a money laundering or terrorist offence. As a reporting person or entity, or an employee of a reporting person or entity, you should evaluate transactions in terms of what seems appropriate and is within normal practices in your particular line of business.

An assessment of suspicion should be based on a reasonable evaluation of relevant factors, including the knowledge of the customer's business, financial history, background, and behaviour. Remember that behaviour is suspicious, not people. Also, it could be the consideration of many factors – not just one factor – which will lead you to a conclusion that there are reasonable grounds to suspect that a transaction is related to the commission of a money laundering or terrorist offence. All circumstances surrounding a transaction should be reviewed. Please see Schedule A for examples of various indicators of suspicious transactions. As a reporting person or entity, you are not allowed to inform anyone, including the client, about the contents of a suspicious transaction report or even that you have made such a report. This applies whether or not such an investigation has begun. In addition, no criminal or civil proceedings may be brought against you for making a report in good faith concerning a suspicious transaction. There are penalties if you fail to meet the suspicious transaction reporting obligations. Failure to report a suspicious transaction could lead to up to five years imprisonment, a fine of \$2,000,000 or both. However, penalties for failing to report do not apply to employees who report suspicious transactions to their superior.

## **MONEY LAUNDERING**

If you have reasonable grounds to suspect that a transaction is related to a money laundering offence or terrorist activity, you must record the details of the activity and report the matter immediately to your Compliance Officer and to the Compliance Officer. When in doubt contact should be made with the Compliance Officer for guidance.

If you know rather than suspect that a transaction is related to terrorist activity because you know that the account is owned or controlled by or on behalf of a listed person or listed entity, the transaction must not be completed. Contact should be made with the Compliance Officer and the RCMP. Current information on listed persons is maintained on the web site for the Office of the Superintendent of Financial Institutions, [www.osfi.ca](http://www.osfi.ca).

## **RETENTION AND DESTRUCTION OF DOCUMENTS**

Our compliance officer reviews all documents in our office (ongoing) and any documents deemed to be redundant, outdated or no longer need are shredded by our service company (Shredit).

All documents that are deemed to be necessary are held in fireproof filing cabinets and are locked up for security in a separate room that is locked as well.

## **GLOSSARY**

“CO” .....	COMPLIANCE OFFICER
“CRA” .....	CANADA REVENUE AGENCY
“DSC” .....	DEFERRED SALES CHARGE
“FEL” .....	FRONT END LOAD
“FINTRAC” .....	FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA
“FSC” .....	FINANCIAL SERVICES COMMISSION
“IFIC” .....	INVESTMENT FUNDS INSTITUTE OF CANADA
“KYC” .....	KNOW-YOUR-CLIENT
“LOD” .....	LETTER OF DIRECTION
“LOI” .....	LETTER OF INDEMNITY
“MFDA” .....	MUTUAL FUND DEALERS ASSOCIATION OF CANADA
“OBSI” .....	OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
“OSC” .....	ONTARIO SECURITIES COMMISSION
“PAC” .....	PRE-AUTHORIZED CHEQUING
“PEFP” .....	POLITICALLY EXPOSED FOREIGN PERSON
“SAFG” .....	STRATEGIC ALLIANCE FINANCIAL GROUP INC
“SRO” .....	SELF-REGULATORY ORGANIZATION
“SWP” .....	SYSTEMATIC WITHDRAWAL PLAN