

SCHEDULE A

Alternative Relationship Disclosure Document

INTRODUCTION

The purpose of this Relationship Disclosure Document is to help investors clearly understand the nature of the services that will be provided by the firm and advisor and what an investor as the client can and should do to ensure a satisfactory ongoing relationship. This document discusses:

- services and account types,
- products,
- investment risks,
- suitability,
- conflict of interest management,
- account fees and charges, and
- client transaction and account reporting.

This document will also explain the nature of the roles and responsibilities the client and advisor have to maintain a successful relationship.

SERVICES

Firms may offer one or more of the following account types. To understand which ones a firm offers a client should speak to their advisor.

Advisory Account

In an *advisory account* the client is ultimately responsible for investment decisions, although the client can rely on advice given by the advisor. The advisor is responsible for any advice given. In providing this advice, an advisor must meet an appropriate standard of care, give suitable investment recommendations, and present unbiased investment advice.

Order-Execution Service Account

In an *order-execution service account* the advisor does not give any recommendations. As a result, the advisor and firm take no responsibility for the client's investment decisions.

Managed Accounts

In a *managed account* a portfolio manager is given the discretion to make and implement investment decisions for the client within agreed limits. In this type of account the client will not have any decision-making role for individual trades.

ACCOUNT TYPES

Depending on which of the above accounts is right for a particular client, the client may be able to open one or more of the following:

- Cash Account
- Margin Account
- Registered Retirement Savings Plan Account (RRSP)
- Registered Retirement Income Fund Account (RRIF)
- Registered Education Savings Plan Account (RESP)
- Futures Account
- Options Account

[NTD: list any other types of accounts]

For more information on how the various account types operate, the client should consult an advisor or visit the firm's website.

PRODUCTS AVAILABLE

- ◆ Firms generally offer a wide range of investment products. This can encompass, equities, fixed income, money market and mutual funds. For a comprehensive list of the various products the firm offers a client should speak to their advisor or visit the firm's website.
- ◆ Products may change from time to time. Clients should talk to their advisor or visit the firm's website.

INVESTMENT RISKS

Understanding risk and knowing an individual's comfort with risk is an important part of investing.

Risk may be defined as the measurable possibility of a future investment loss or gain, including the prospect of losing some or all of the original investment. Risk is a common indicator of the volatility of the value of a security or market. Volatility is a measure of the rate or degree that the price of a security or investment fluctuates over time.

It is every investor's dream to receive a high return without incurring any risk. In reality, risk and return are related. To earn higher returns, investors must choose investments with higher risk.

The amount of risk that a client is comfortable with is their risk tolerance. How a client feels about risking money will drive many of the investment decisions. The risk comfort scale extends from very conservative (a client does not want to risk losing a penny regardless of how little their investment earns) to very aggressive (a client is willing to risk funds for the possibility that it will grow considerably).

An individual's risk tolerance may be affected by a number of factors:

- Age;
- Family situation (marital status, number and ages of dependants, etc.);
- Net worth and income expectations;
- Insurance coverage and cash reserves.

Careful discussions with your advisor to identify your own personal risk tolerance is essential.

Common Risks

Generally speaking, risks can be classified as market related or security specific.

Market related risks

Risk factors that every investor is subject to irrespective of specific investment holdings include:

Market risk -- Most investments are subject to the risk of a general market decline in response to changing conditions in the domestic or global economy. These market-wide changes can be unpredictable and beyond anyone's ability to forecast.

Inflation risk -- Inflation reduces an individual's future purchasing power and their real investment returns.

Interest rate risk -- Interest rates changes affect the value of fixed income securities. An increase in interest rates will result in a drop in the market value of a fixed income security.

Foreign exchange risk -- Foreign exchange rate changes affect the value of investments that are traded in a foreign currency.

Security specific risks

Risk factors which can affect the value of a specific investment holding include:

Product risk -- Stocks generally carry a higher level of risk than bonds. Short-term government debt securities are essentially risk-free, with the degree of risk increasing with longer-term government bonds, investment grade corporate bonds and other corporate bonds.

Business risk -- Business specific risk factors can affect a company's profitability. The failure of a new product, labour difficulties, high debt levels and the performance of competing firms are some of the specific risk factors which may contribute to a particular company's level of business risk.

Foreign exchange risk -- Foreign exchange rate changes affect the value of investments in companies that buy and sell products / services in foreign countries.

Reducing security specific risk

Security specific risks can be reduced by holding a well diversified portfolio of investments. A diversified portfolio starts by allocating a client's investments amongst debt and equity products. The debt portion of the portfolio can be further diversified by purchasing debt of different terms and of different issuers, although all issuers should have an acceptable credit rating. The equity portion of the portfolio can be further diversified by buying shares of companies in different business sectors or based in different countries. If the client does not have a large amount of money to invest, they can diversify by investing in a pooled investment like mutual funds or exchange traded funds.

Protection from firm insolvency risk

The cash and security assets in the client's account are automatically covered by the Canadian Investor Protection Fund (www.cipf.ca) should the firm become insolvent. CIPF provides up to \$1 million in cash and securities in the event a firm becomes insolvent for each account (registered accounts are treated as separate accounts) that the client has with us. This coverage does not include losses as a result of changing market values of securities or unsuitable investments.

YOUR PERSONAL INVESTOR RISK PROFILE

An advisor can help a client determine their comfort level with risk based on the information the client provides.

- ◆ **For a LOW RISK investor** –The firm will recommend investments that generally display a lower volatility and risk profile. Although returns generated by such products are generally lower, they may be more certain.
- ◆ **For a MEDIUM RISK investor** --In addition to lower risk products, the firm may propose investments that include securities that may exhibit moderate volatility and a medium risk profile. While potential returns are higher, return volatility and risk also increase.
- ◆ **For a HIGH RISK investor** --In addition to lower and medium risk products, the firm may suggest investments that may be unpredictable and speculative in nature. Such products may be subject to a greater risk of loss with a greater potential for returns.
- ◆ **For a COMBINATION OF RISK LEVELS** – A client may have a combination of the risk levels depending on the types of accounts they have. For example, a client may be high risk investor in their money market account and a low risk investor in their margin account.

INVESTMENT SUITABILITY

Suitability assessment at time of trade

The regulations of the IDA requires Member firms to use due diligence to evaluate the suitability of any order the firm accepts or recommendation the firm makes based on factors including a client's financial circumstances, investment knowledge, investment objectives and risk tolerance. If the advisor determines that a transaction proposed by the client is unsuitable, they will advise the client of their assessment prior to executing the trade. Moreover, a firm will reserve the right not to accept an order to purchase a security if it is not in keeping with the client's investment objectives. Suitability assessments are made at the time trades are placed.

If a client has an order-execution service account the firm does not take responsibility as to the appropriateness or suitability of the trades to the client's financial situation, investment knowledge, investment objectives and risk tolerance.

ANNUAL PORTFOLIO REIVEW

[NTD: other titles could include: periodic account/portfolio review, annual service arrangement]

If a client chooses, the client can ask their advisor to meet with them at least annually in order to discuss the client's account holdings and investment strategy. This type of review would not occur if a client has an order-execution service account.

If an advisor fails to meet with the client as the client requested, the client can complain to the branch manager or to the head office and/or terminate the relationship with their advisor.

CONFLICTS OF INTEREST MANAGEMENT

Conflicts of interest may arise at account opening or while a client's account is held at the firm. Management of conflicts is carried out through disclosure in accordance with IDA by-laws, rules and regulations.

FEES AND SERVICE CHARGES

Commissions

Commissions are transaction related fees paid to the firm at the time of sale or shortly thereafter and which are shared by the dealer with the advisor. In the alternative, a client may pay a single fee, based on the account's total assets, instead of commissions and service charges being levied separately for each transaction in the client's account.

Mutual Fund Fees

Whether or when a client would be required to pay a direct sales commission depends on the type of mutual fund in which a client invests. **(1) Front-end load fee funds:** A sales commission is deducted from the money the client sends to the mutual fund at the time the fund is purchased. **(2) Back-end load fee funds:** Depending on how a client owns the fund, a sales commission might be deducted when the client sells any or all of their fund position. The fee often declines to zero over a six or seven year period. This sales commission is also known as a deferred sales charge (DSC). **(3) Optional load fee funds:** The client has a choice between paying a front-end load fee or a back-end load fee. **(4) Funds with both loads:** A fund may have both a front-end load fee and a back-end load fee. **(5) No-load fee funds:** No commission is payable at the time of fund purchase or sale. A client may also be required to pay an additional charge if the client sells a mutual fund within a short time of purchasing the fund. A number of mutual funds permit the client to

redeem up to 10% of the fund annually without paying any fees. However, each fund company has their own method of calculation. Generally, a client can switch funds within the same family without incurring a redemption charge.

ACCOUNT REPORTING

Transaction and statement reporting

The client will receive written confirmation of all transactions in their account. The client will also receive account statements when there is a transaction during the month and on a quarterly basis regardless of account activity.

Annual Portfolio Review

If the client chooses to have an annual portfolio review with their advisor, the client can discuss the performance of your account or portfolio. During these discussions the advisor may provide the client with various reports such as a cost report, performance report and a percentage return report. The client can discuss with their advisor whether these reports are produced on an account, portfolio or household basis and the costs to receive them. These reports will help a client to know how their account is doing.

CLIENT RESPONSIBILITIES

A firm needs the client's help to ensure that the relationship with their advisor is positive and results in the services that the client needs and wants. The client has responsibility to make sure this happens. The client should:

- Provide a full and accurate description of their financial situation, investment objectives and risk tolerance to their advisor to assist him/her in meeting the client's investment goals.
- Promptly inform their advisor of any material changes to their life circumstances or investment objectives. A "material change" is a change to any information that could reasonably result in changes to the types of investments appropriate for a client, such as income level, investment objectives, risk tolerance, time horizon or net worth. Examples of such changes would include changes in employment, marital status or retirement plans.
- Review all account documentation, sales literature and other documents provided by the advisor.
- Understand all costs and fees associated with the services a client will be provided.

- Be proactive - ask questions and request information to resolve any questions the client may have about the account, specific transactions or investments or the client's relationship with their advisor.
- Be cognizant of potential risks and returns on investments.
- Communicate in writing you client's expectations for the advisor and/or firm.
- Contact the branch manager if displeased with answers or explanations from the advisor.
- Ensure payment for transactions is made by the settlement date.
- Review all confirmations and account statements promptly and carefully in order to report any errors within the time limits prescribed on the documents.
- Review account/portfolio holdings on a regular basis and discuss them with the advisor.
- Consult the appropriate professional such as an accountant or a lawyer for tax or legal advice.

AGREEMENTS AND DISCLOSURES

The following agreements may be entered into depending on the type of account(s) the client opens.

- (i) Joint Account Agreement
- (ii) Margin Agreement, to be obtained before a margin account is opened
- (iii) Discretionary Account Agreement in compliance with Regulations 1300.4 and 1300.5
- (iv) Managed Account Agreement in compliance with Regulations 1300.7 and 1300.8
- (v) Options Trading Agreement in compliance with Regulation 1900.6
- (vi) Futures Contracts and/or Futures Contracts Options Trading Agreement in compliance with Regulation 1800.9
- (vii) Consent to electronic delivery of documents
- (viii) Trading Authority Agreements
- (ix) Power of Attorney Agreements

The following disclosures are required to be provided to the client by their advisor:

- (i) Leverage Risk Disclosure Statement in compliance with By-law 29.26

- (ii) Futures risk disclosure statement in compliance with Regulation 1800.2(e)(ii)
- (iii) Options risk disclosure statement in compliance with Regulation 1900.2e(i)
- (iv) Introducing/carrying broker disclosure in compliance with By-law 35
- (v) Alternate dispute resolution brochure in compliance with By-law 37.3
- (vi) Shared premises disclosure in compliance with Policy 1
- (vii) Strip bond information statement
- (viii) Statement of policies
- (ix) Service fee schedule
- (x) Referral fees
- (xi) Principal/Agent disclosure in compliance with By-law 39, Appendix B

[Note to draft: consider including the leverage disclosure and strip bond disclosure statements, among others, directly in this RDD in order to rationalize the account opening process.]

CONTACT INFORMATION

We encourage you to contact your advisor or the branch manager if you have any questions or concerns with respect to your account or the services provided.

[Firm to provide mailing address/phone/facsimile/e-mail address for clients.]

You may also wish to contact our Client Services Department.

[Firm to provide mailing address/phone/facsimile/e-mail address for clients.]

If you are unsatisfied with the response you receive, you may wish to contact the Compliance/Legal Department.

[Firm to provide mailing address/phone/facsimile/e-mail address for clients.]

If you need assistance in settling a matter with our firm, you may send a written complaint to the Investment Dealers Association. Other options include contacting the Ombudsman for Banking Services and Investments (OBSI) or engaging in arbitration or court proceedings.

[Firm to provide IDA brochure and contact information of the nearest IDA office.]