
Preparing for the new Client Focused Reforms

Webinar: We can help you get ready for the CFRs

Under the Client Focused Reforms (CFRs) from the Canadian Securities Administrators, IIROC and the MFDA, new requirements for conflicts of interest took effect on June 30. All other reforms, including Know Your Client (KYC), Know Your Product (KYP) and Suitability requirements are to take effect on December 31. Franklin Templeton's **Dennis Tew, Head of National Sales**, **Justin Belliveau, Vice President, Sales**, and **Senior Corporate Counsel Kim Cadario** discussed the reforms in general, with specific focus on practical measures you can take to navigate the KYP rules. Here are the key takeaways.

Overview: clients' best interests come first

The regulators consider the CFRs an important investor protection initiative that's based on the concept that, in the client-registrant relationship, the client's interests come first. The key focus of the CFRs is on keeping the client's best interests at the forefront of every recommendation. For example, conflicts that come with the use of proprietary products could be addressed by comparing those products to peers to make sure there are competitive solutions for the client through the advisory firm. Advisors must also disclose to prospective clients whether they deal exclusively in proprietary products so that investors are aware of the range of products being recommended.

Under the **new suitability requirements**, advisors will be required to review a client's suitability when there are fund changes as well as changes to KYC information. For example, if the client has a change in salary or employment, gets married or retires, suitability must be re-examined. Advisors will also have to compare a recommended security to a reasonable range of alternatives available through their firm.

The incoming **KYP requirements** are designed to support the suitability rules. In general, firms must assess all products that they are going to make available to clients, based on various criteria for approval. Advisors must have an understanding of what they recommend to clients. The more complex or risky the investment, the more detailed consideration you're expected to give. Also, advisors must only sell what is approved at their firms.

Always check with your legal and compliance department to make sure you fully understand what you're allowed and not allowed to do under the CFRs.

Can KYP requirements be waived?

The KYP requirements cannot be waived. The regulators have, for the first time with the CFRs, introduced an express KYP requirement. You must have an understanding of the securities that are purchased, sold or recommended to your clients. Your obligations include demonstrating knowledge of the products you recommend, documenting your recommendations and recommending only firm-approved products. The CFRs have essentially codified industry practices including product due diligence, monitoring of product shelves and advisor education.

Source: National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103) and Companion Policy to NI 31-103

Can suitability determinations be delegated?

Responsibilities arising from suitability obligations cannot be delegated. You cannot rely on an unregistered individual such as your administrative assistant or a third-party referral agent, or a registrant at another firm. The CFRs confirm that a suitability determination is a fundamental obligation and an extension of an advisor's duty to act fairly, honestly and in good faith. The CFRs also make clear that suitability cannot be determined without having first complied with KYC and KYP requirements. Furthermore, there is the new requirement that advisors must put a client's interest first when making a suitability determination.

Source: National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103) and Companion Policy to NI 31-103

How Franklin Templeton Can Help

There are lots of demands on your time so we're offering advisors a **regularly scheduled KYP review** of your Franklin Templeton holdings. Our goal is to simplify the product review process to help you remain focused on your practice. The process involves **3 easy steps**:

1. **Contact your Franklin Templeton representative to schedule a meeting.**
2. We will review your current assets with Franklin Templeton to address specific KYP requirements such as performance, holdings, management fees, risk levels and any updates needed for KYP.
3. You will receive documentation to confirm the information discussed in the review and have it available for your records.

bestbuilt® Hypotheticals

You can also use this self-service tool to generate comparisons of fund and portfolio returns, risk metrics and income scenarios across thousands of funds and hundreds of index options.

bestbuilt® Hypotheticals can help you develop recommendations, test-drive your best ideas, and deliver professional reporting, making it easier for you to showcase your value as a financial advisor.

Portfolio Consulting Services

If you require a more sophisticated guided review, Franklin Templeton Portfolio Consulting Services (PCS) may be better suited to your needs. PCS offers a range of portfolio services to help improve

the risk profiles of your model portfolios, with the goal to improve client outcomes. We can run analytics on your model portfolios, evaluate your fund matrix, run a diagnostic on your portfolio, or compare models. Our analysts can conduct an in-depth portfolio review that uses multiple risk lenses and analytics to deliver insights and address potential areas of concern.

Please note this webinar summary is not, and should not be considered, legal advice. This presentation reflects our understanding of the CFRs as of September 2, 2021, and our interpretation will likely evolve and change over time. Please consult with your firm's or dealer's legal and/or compliance staff for advice about your policies and procedures related to securities regulation and the CFRs.

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