

SALES PRACTICES AND OTHER CONFLICTS OF INTEREST

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THE INVESTMENT
FUNDS INSTITUTE
OF CANADA

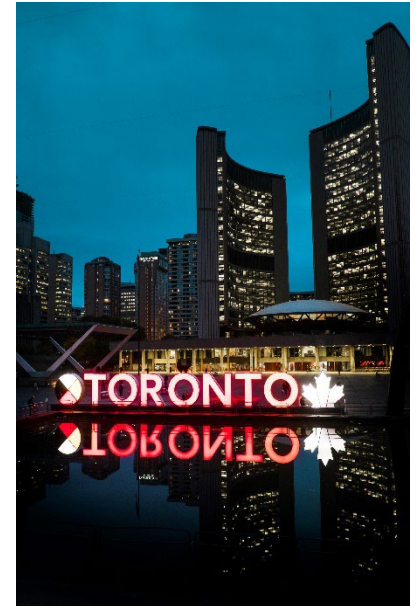
L'INSTITUT DES FONDS
D'INVESTISSEMENT
DU CANADA

A seminar in T.O.

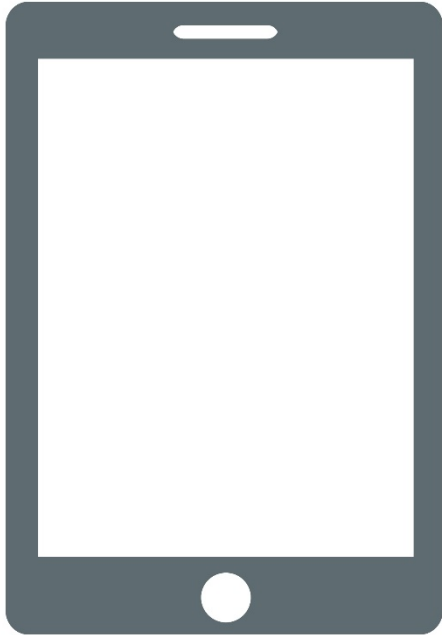
An investment fund manager has invited dealing representatives, that have been selling its funds, and who are employed by various dealers, to a conference in Toronto.

- Dealing representatives have to pay for their own flights and hotel rooms.
- The IFM has arranged for discounted room rates for dealing representatives in exchange for higher room rates for employees of the IFM.
- Transportation to and from the airport by school bus is covered by the IFM.
- The conference is entirely focused on business building sessions that have all been approved by various associations for CE credits.

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A seminar in T.O. (continued)



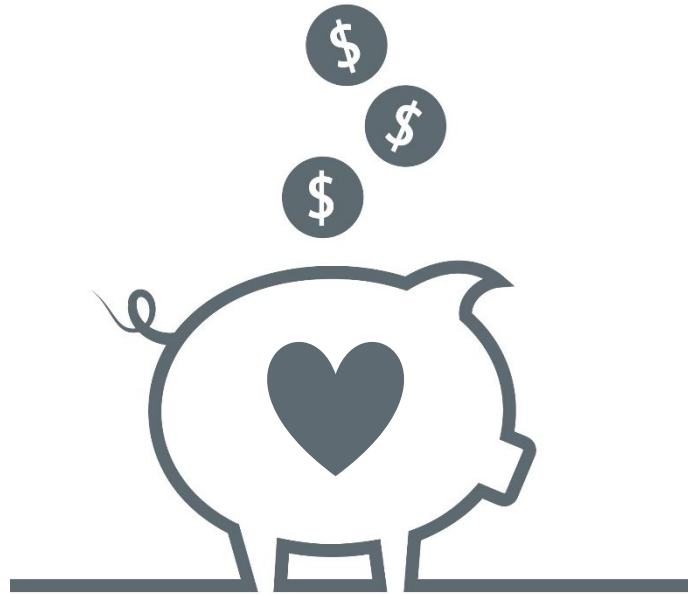
- The IFM is a sponsor of a local professional sports team. Because of their sponsorship, the team has offered to spend the morning after the conference wraps up playing a round of golf with the attendees.
- In order to save trees and printing/shipping costs, all educational materials will be available in electronic format, and dealing representatives will be given their own tablets to access the materials. Knowing that iPads are not considered promotional, the IFM purchased cheap unbranded tablets in bulk for \$100 each. The IFM has established a \$100 limit on the value of promotional items.

POA Problem

An 82-year old client holds a \$250,000 non-registered mutual fund portfolio with a dealer. The client's daughter holds a power of attorney. The daughter calls the dealing representative and asks to be put on her mother's account as a joint owner. She explains that she recently attended a retirement planning session and that this was suggested as a way to avoid probate when her mother passes away.



Flowers and Funerals



An IFM learns of the passing of a relative of one of their big supporters. In addition to sending a tasteful floral arrangement to the funeral home, the IFM also made a \$1000 donation to a family charitable foundation run by the advisor. The charitable foundation makes donations to local charities involved in cancer research.

To fee or not to fee

An advisor has 80% of his book in fee based accounts with account fees set at or below 1%. The dealer notices that most of the account fees have been increased to 1.5%. When queried the advisor states that the clients agreed to all increases, but added that the services provided to the accounts had not changed.



Lotto Max

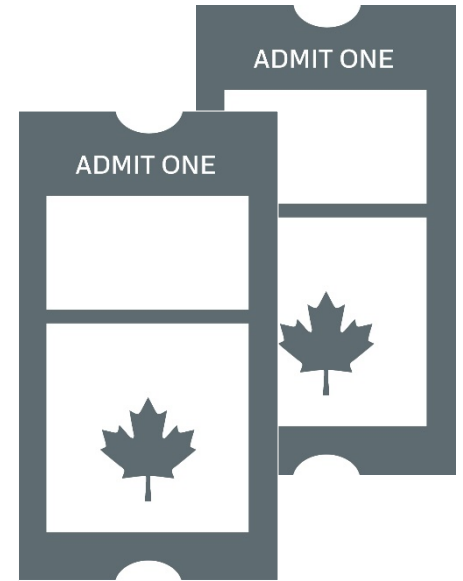


An advisor's client won \$15,000,000 in a lottery and wants to invest \$10,000,000 of the proceeds. The advisor recommends a portfolio of mutual funds, all with DSCs. When queried the advisor states that the DSC is a good thing for the client because it will deter selling the funds and that the client wants the advisor to earn the 5% sales commission as a reward for years of good advice and guidance.

The advisor is under close supervision as a result of a CRA garnishment.

Anybody selling tickets?

A representative of a dealer has seasons tickets to the Toronto Maple Leafs. He offers to sell his mutual fund wholesaler a pair of tickets to a popular game for a 20% premium.



Household headaches



A dealer offers householding among family members, but the term “family members” is not defined in the dealer’s account agreement. In practice, the dealer will allow advisors to use discretion to offer broader householding for larger groups (beyond members of immediate family) when the clients have considerable assets and generate a lot of revenue in their accounts.

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Household headaches (continued)

Some clients have complained that the householding rules have been applied restrictively to them and generously to others, resulting in fee overcharges to the complaining clients. In the course of reviewing the clients' complaints, the dealer notices that in some cases several clients have been grouped together to form a "household" in order to qualify for a lower cost series of a fund, but in other cases similarly situated client groups have not been householded.

