Investor questionnaire guide

The Client Focused Reforms (CFR) that came into play on Jan.1, 2022, outlined new requirements for investment representatives with regard to completing Know Your Client (KYC) documents. In the past, the KYC tended to be a tick box exercise with little to no backup, to justify the selections chosen. With CFR, our regulators are now expecting advisors to do a deeper dive into their KYC requirements and provide documentation to support how the KYC is completed.

This guide will help you understand how your client's answers in each section of the questionnaire impact the final score.

Investment knowledge

The level of investor knowledge is critical to determining how much risk a client can take on. Client complaints often rely on the client's knowledge level.

- No knowledge – maximum profile is Balanced
- Limited knowledge – maximum profile is Advanced
- Good or excellent knowledge – maximum profile is Aggressive

Time horizon

The length of time the client plans to keep the money invested in order to reach their ultimate goal has a direct impact on how risky the plan should be. Short time horizons should be conservative whereas longer term time horizons can be much riskier.

Time	Maximum profile
One to three years	Moderate
Four to five years	Advanced
Six to 10 years	Advanced
Over 10 years	Aggressive

QUADRUS
Quadrus Investment Services Ltd.

Investment needs and objective

This section is about the types of funds (in other words, not the risk), the client wants to invest in based on their classification (for example, Income, Income & Growth, Growth) and approximately in what proportion.

Need	Maximum profile	Classification
Safety of investments	Preservation	Preservation
Relatively safe, earning interest income	Conservative	100% fixed income
Focused primarily on interest income and modest asset growth	Moderate	Income
Focused primarily on asset growth and modest interest income	Balanced	Income & growth
Focused solely on asset growth	Aggressive	Growth

Risk profile

The risk capacity and risk tolerance sections in the questionnaire determine a client's risk profile. Regulations require a client's risk profile to be the most conservative of either their risk capacity or risk tolerance. In each category, the overall score is a result of each question's score added together.

Risk capacity

A client's risk capacity is their ability to financially take on risk and still meet their investment goal. There are six questions that determine a client's risk capacity by considering a client's income, net worth, liquid net worth, stability of income, proportion of assets held in the particular plan and age. Regulators view a client's age as a significant factor in this calculation. Elderly clients have a significantly higher probability of having unforeseen expenses due to potential health issues. As such, this element has a higher impact on a client's overall capacity score.

The following indicates the maximum rating permitted based on the client's total score for risk capacity.

Total score	Risk capacity
Less than 20	Conservative
20 to 35	Balanced
36 to 50	Advanced
More than 50	Aggressive

Risk tolerance

A client's risk tolerance is their personal attitude towards risk (in other words, what type of market volatility will keep them up at night). The questions in this section determine how the client will react based on various hypothetical scenarios.

The following indicates the maximum rating permitted based on the cumulative scores for risk tolerance.

Total score	Risk tolerance
Less than 20	Preservation
20 to 21	Conservative
22 to 30	Balanced
31 to 45	Advanced
More than 45	Aggressive

Leverage

Although the questionnaire doesn't score this question, it's an important item to capture. Regulators have made it clear that we must document whether the client is borrowing money to make an investment because that can add to the risk associated with their plan. If a client is borrowing to invest, you'll be required to provide additional leveraging documentation.

Overrides

The questionnaire won't necessarily capture all of the information relevant to determining the client's risk profile. Instead, think of it as a starting point for your conversation. If something comes to light that could impact the results of the questionnaire, but you can't capture it in the questionnaire, you and your client can override the result. However, you must have a clear, client-focused reason for any override. It's not enough to focus on your or your client's desire to make their plan more aggressive. You must document the client's factual circumstances that justify an override.

Note: Overrides are to be the exception, not the rule.