



SUPERIOR SIGNAGE

Ensure proper steps are followed before a client signs an LTA. By **Ellen J. Bessner**

In my last article, I described the Limited Trading Authorization (LTA) form and how useful it can be when applied according to MFDA requirements. In this article I will describe the process an advisor should follow when guiding clients through signing an LTA.

First, familiarize yourself with the particular LTA form used by the dealer with whom you are licensed. This means reading each term on the form carefully, particularly the “General Provisions” listed on the reverse side. Prior to signing the form, clients must also read and fully understand the terms, however challenging they may seem. (LTAs I’ve seen are not written in plain and simple language.)

Next, review each paragraph of these provisions with the client and provide an explanation. Some advisors think having clients sign at the bottom of the page and initial the reverse side is sufficient evidence to confirm that the client has read and understood their terms.

This is not so. There must be proof, beyond the client’s signature, that you provided the client with a proper explanation enabling him or her to know exactly what’s being signed. Always encourage clients to ask questions. If they do, make notes of both their questions and your responses, because this evidence will help prove sufficient client comprehension of the

terms. The concern, of course, is later on when the client asserts that he or she didn’t understand what was being signed.

Then, the advisor must complete the “Investor Authorization” section and obtain a witness signature.

LTA Guidelines

It’s important to review the following provisions with the client:

- commissions are charged on each trade;
- there may be special charges when the securities are redeemed;
- trades pursuant to the LTA may not be held in the client’s name, and should the dealer go bankrupt, the client may not be entitled to his or her securities and may be required to share pro-rata with others;
- the LTA affects all the client’s accounts with the particular dealer—not just a single account held by this dealer in the client’s name;
- the dealer still needs the client’s specific instructions for every purchase, switch or redemption;
- the client must continue to check all confirmations and statements received to ensure trades conform with his or her instructions;
- the client may write the dealer or advisor a letter revoking the LTA at any time; and
- the LTA will automatically expire

in certain circumstances (death, mental incapacity or dealer insolvency) but will otherwise remain in full force.

If the dealer requires a “signature guarantor,” that person must be authorized to provide such a guarantee at a bank, trust company or the dealer. The person named as representative in the LTA cannot guarantee the client signature.

Finally, the authorized officer or branch manager must thoroughly review the LTA to ensure it was completed properly, and only after such review, sign where indicated. They may even ask for a copy of the advisor’s notes for further reassurance.

It’s possible you will still encounter the odd, rogue client who may claim he or she didn’t understand, despite the diligence of your explanation of the LTA’s general provisions. However, taking proper notes will limit your exposure.

In my next article, I’ll describe the paper trail necessary to prove adequate steps were taken in the LTA signing process. **AE**

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