


Connecting You Coast to Coast



Becoming an EMD: What You Need to Know

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Registrant Outreach Workshop


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Agenda

- Registration trigger
- Application of the trigger
- Exempt market
- Regulatory requirements
- Compliance infrastructure
- Dealing with clients



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Who must be registered?

- The registration requirement is triggered on being in the business of dealing in securities
- Definition of securities is very broad and includes:
 - Title to or interest in the capital, assets, property, profits, earnings, or royalties of any entity
 - Options or subscriptions to an interest in a security
 - Bonds, debentures, or other debt instruments
 - Investment contracts
- Any type of interest in profit/revenue sharing plans



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Dealing in securities

- Dealing in securities – combination of factors
 - Acting like a dealer
 - Intermediating trades
 - Directly or indirectly soliciting interest in a security or an issuer
 - Continuity or repetition of activity
 - Expectation of compensation



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What do you mean?

- Pat starts a dog biscuit company
 - Friends and family were the source of the start-up capital
 - Company is successful but needs additional capital to expand
 - Pat approaches Robin
- Robin agrees to raise capital for Pat by selling promissory notes



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Application of factors

- Robin starts an advertising campaign for Pat's Bickies
- Robin meets with prospective investors
- Robin completes the documentation and gives the cheques to Pat
- Pat sends notes to investors
- Pat pays an 8% commission to Robin
- Robin is dealing in securities




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Other business models

- What is a finder?
 - A person who knows investors
 - A person who knows issuers
- What is an intermediary?
 - A person who brings a buyer and a seller together
- The finder is paid by the issuer



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Other business models

- Mortgage Investment Corporations
- Soliciting interest in a pool of mortgages
- Selling securities
- Acting like an intermediary



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Clients

- Non-prospectus investment products (i.e. exempt products) can only be sold to clients that qualify for an exemption under NI 45-106
- Most commonly used exemptions:
 - Offering memorandum
 - Accredited investor
 - Minimum amount



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Regulatory requirements

- NI 31-103 sets out a comprehensive dealer regulatory framework including:
 - Registration requirements of proficiency, integrity and financial solvency
 - Capital, solvency and insurance standards
 - Audited financial statements
 - Know your client
 - Know your product
 - Trade suitability



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Regulatory requirements

- Books and records
- Trade confirmations and client statements
- Disclosure of conflicts of interest
- Disclosure of referral arrangements
- Complaint handling and dispute resolution
- Compliance policies and procedures
- Submission to CSA oversight and dealer compliance reviews.




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Compliance infrastructure

- Compliance is a firm-wide responsibility
- Culture of compliance starts with the “Tone at the Top”
 - Ultimate Designated Person
 - Chief Compliance Officer
- Policies and procedures manual
 - Internal controls and supervision sufficient to manage risks associated with **your** business
 - Meet the requirements of securities legislation and prudent business practices



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Know your client

- Cornerstone of securities regulation:
 - Know Your Client (KYC)
 - Know Your Product (KYP)
 - Suitability
- Two purposes for KYC:
 - Gatekeeper
 - Client reputation
 - Anti-Money laundering
 - Suitability



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Know your product

- KYP two steps:
 - Product due diligence
 - Who is the issuer and what is the product
 - Background of the issuer and management
 - Financial position
 - Investigation of red flags
 - Suitability
 - Attributes and associated risks of product
 - Costs and fees, including ongoing fees



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Suitability and standard of care

- Suitability is a three step process:
 - KYC/client due diligence
 - KYP/product due diligence
 - Application of professional judgement
- Regulatory goal: an informed investment decision about a suitable investment
- You're required to deal with clients honestly, fairly, and in good faith



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Questions

Exempt Markets Dealers Association of Canada

The voice of the EMD industry.

Connecting You Coast to Coast.

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