# Dealer Compliance Issues

Mark French & Ray Harding Registrant Outreach March 7, 2013



# Dealer compliance review focus areas

- Compliance policies and procedures
- KYC and suitability
- Know your product
- Marketing to investors
- Disclosure to investors
- Client account reporting
- Referral arrangements



# Deficiencies we see at dealers

- Policies and procedures
- Advertising and marketing
- Know your client
- Know your product and suitability
- Financial condition
- Commission payments to corporations



# Policies & procedures

(NI 31-103 Section 11.1)

### Procedures manuals are frequently not

- relevant to your firm
- updated periodically as the firm's business changes
- accessible by all staff
- complete, often omitted are
  - hiring and training
  - closing accounts
  - disaster recovery and business continuity



# Advertising & marketing

(Rules s.14; Act s.50)

#### We saw deficiencies

- Registrants may not state <u>or imply</u> that the return on an investment is guaranteed
- Benchmarks, if used must be relevant
- Your full registration name or trade name <u>if</u> <u>registered</u> must be used on all signage, letterhead and business cards



## Know your client

(NI 31-103 Section 13.2)

#### We saw deficiencies

- KYC forms are often not
  - accurate
  - complete
  - consistent
  - up-to-date
- Client relationship disclosures must be complete
- Referral arrangements must be disclosed



6

# Know your product & suitability

(NI 31-103 Section 13.3)

Inability to explain all aspects of an investment

- Who qualifies and why
- What is the nature of the investment
- How and when the purchaser earns income
- What are the risks
- What factors affect risk
- What is the full cost of the investment
- How is the dealer compensated

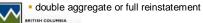


## Financial condition findings

(NI 31-103 Part 12)

#### You must

- File annual audited financial statements
  - Your responsibility not auditor
- Calculate regulatory capital monthly
  - Document the calculation
- Ensure adequate financial Institution Bond coverage
  - 1% of balance sheet assets or AUM
  - \$50,000 per employee (registered or not)





BRITISH COLUMBIA SECURITIES COMMISSION

# Filing requirements

(General)

#### You must provide

- Audited financial statements annually
- Subordinated loan agreements when executed
- Changes to or claims on Financial Institution Bond
- Suppression of Terrorism and **UN Sanctions Report monthly**



## Risk disclosures

(Various forms)

Confusion over risk acknowledgement forms

- Use Form 45-106F2 (OM) risk acknowledgement
- BCI 32-513 (NW Exemption) risk acknowledgement "the person selling me these securities is not registered with a securities regulatory authority and is prohibited from telling me that this investment is suitable for me"

is **not** for registered EMDs

A registered EMD must consider suitability



10

Questions





11