

Dealer Compliance Issues

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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



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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



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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



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Advertising & marketing

(Rules s.14; Act s.50)

We saw deficiencies

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



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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



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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



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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)
 - double aggregate or full reinstatement



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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



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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



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Questions

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