

Registrant Outreach Workshop

2025

Welcome address

Janice Leung, Manager, Adviser/IFM Compliance, Capital Markets
Regulation



Today's Agenda

- Welcome address
- Issues from the Field
- Enforcement and Compliance Actions and Lessons Learned
- Break (2:15-2:25 PM)
- The CSA Collaboratory and Data Portability
- The Use of Artificial Intelligence in Capital Markets
- Closing remarks



How to Participate

- Ask questions and participate in polls
- For mobile device or computer web browser (no download required)

Go to: **www.slido.com #7029255**

or scan the QR code:



Issues from the Field

Colleen Ng, Senior Compliance Analyst, Adviser/IFM Compliance

Zoe Wong, Compliance Analyst, Adviser/IFM Compliance

Crystal He, Lead Compliance Analyst, Dealer Compliance

Kai Shi, Senior Compliance Analyst, Dealer Compliance



Determination of the client's risk profile

Risk Tolerance

Registrants should have a process in place for assessing a client's willingness to accept risk.

Risk Capacity

Registrants should have a process in place for assessing a client's ability to endure potential financial loss.

Risk Profile

Risk profile is made up of the client's risk tolerance and risk capacity. The risk profile should be the lower of risk tolerance and risk capacity.



Risk Profile Assessment

- Risk profile = risk tolerance + risk capacity
- Meaningful assessment
- Consistency with KYC information

Confirmation of KYC information

- Confirmation on a KYC form or KYC update form
- Confirmation by email
- Confirmation on notes





When to contact the Trusted Contact Person

- The registrant has concerns about possible financial exploitation of the client
- The registrant has concerns about the client's mental capacity as it relates to the ability of the client to make decisions involving financial matters
- To obtain the name and contact information of a legal representative of the client, if any
- To obtain the client's contact information



Suitability – factors to consider

- i. the client's information collected in accordance with section 13.2 [know your client];*
- ii. the registrant's assessment or understanding of the security consistent with section 13.2.1 [know your product];*
- iii. the impact of the action on the client's account, including the concentration of securities within the account and the liquidity of those securities;*
- iv. the potential and actual impact of costs on the client's return on investment;*
- v. a reasonable range of alternative actions available to the registrant through the registered firm, at the time the determination is made)*



Suitability Assessment

- Putting the client's interest first
- Specific factors to consider - 13.3(1)(a) of NI 31-103
- Conducting a sufficient concentration assessment
- Maintaining adequate documentation to support suitability determination
- Following up on conflicted or inconsistent information



Training

- **11.1 Compliance system and training**

(2) A registered firm must provide training to its registered individuals on compliance with securities legislation including, without limitation, the obligations under sections 13.2, 13.2.1, 13.3, 13.4 and 13.4.1.

- **Regardless of how training is delivered, it should be supported by sufficient records.**



Know Your Product (KYP)

- Demonstrate the understanding of the products the firm recommends or trades for clients
- Establish a clear KYP policies and procedures manual
- Maintain documentation
- Consider the firm's business model



Example 1 – Firms that use model portfolios

- Conduct KYP at the model level
- Generate reports with various data of the securities in the model portfolio
- Issues: No written process for
 - How to use the reports to support KYP and suitability assessment
 - Who, when, how often the firm creates the reports
 - Maintaining records



Example 2 – Small firms

- Use third party research reports
- Have access to the research reports anytime
- Issues: No evidence showing
 - How the research supported the firm's KYP and suitability assessment
 - When the firm reviewed the research reports
 - The firm's key takeaways and insights from the research

Record-keeping for KYP



- Keep historical records for 7 years (see section 11.5 of NI 31-103)
- Demonstrate monitoring process over time

Client Focused Reforms – KYP Obligation



- Monitoring securities sale (see section 13.2.1 (c) from NI 31-103)
- KYP reassessment and re-approval
- Ongoing documentation of activities
- Obtain current information through public/private sources
- Internal process to track **significant changes** in their own products
- **Significant change** definition in PPM (see suitability obligation under section 13.3 (2) of 31-103)

Enforcement and Compliance Actions and Lessons Learned

Jason Chan, Senior Compliance Analyst, Adviser/IFM Compliance

Crystal He, Lead Compliance Analyst, Dealer Compliance



What we will cover today

Enforcement & Compliance actions and lessons learned

IFM/Adviser:

- Case #1- small firm- compliance actions
- Case #2- IFM,PM, EMD- settlement
- Case #3- PM-settlement

Dealer

- Compliance case



Case #1 – small firm- compliance actions

- **Background**
 - registered as a portfolio manager since the 90s
 - managed account services to high-net-worth clients
 - initially part of Phase 2 of CFR sweep, but then expanded
 - as a result of the exam, T&C imposed on the firm's registration



Case #1 – small firm- compliance actions

- **Compliance Deficiencies Identified**
 - More than 15 compliance deficiencies, including:
 - Missing and inadequate PPM
 - Missing key records and lack of record keeping process
 - Failure to maintain current KYC information
 - No suitability assessment process
 - Inadequate client statements and reporting
 - Failure to perform UDP and CCO functions



Case #1 – small firm- compliance actions

KYC and Suitability issues

KYC Issues:

- No clear guidance on what information to collect or how often
- No client confirmation or documentation of KYC updates
- All client files reviewed had KYC deficiencies

Suitability Issues:

- No current KYC records, making meaningful suitability reviews impossible
- No documented suitability assessments



Case #1 – small firm- compliance actions

Policies and Procedures Manual (PPM)

- Only 10 pages long
- Lacking in KYC, KYP, suitability, BCP, Trading, Account opening,
- Complaint handling, client statements, data confidentiality etc.
- No coverage on CFR requirements
- Marketing, advertising and performance presentation
- Conflicts of interest

Client Statements and Reporting

- No annual reports of charges and compensation
- Non-compliant annual investment performance reports



Case #1 – small firm- compliance actions

Compliance Function

- No systematic approach to compliance
- Poor documentation

Terms and Conditions Imposed:

- Hire an independent compliance monitor at the firm's expense
- Rectify all deficiencies within 12 months
- Review and document KYC information for all clients within 6 months
- Conduct suitability assessments for all client portfolios within 6 months
- Update client relationship disclosures
- No new clients until KYC and suitability reviews are complete



Case #2— IFM, PM, EMD —settlement

[2024 BCSECCOM 260](#)

- IFM, PM, EMD
- Offers own proprietary funds to its managed account clients
- The firm and its former UDP reached a settlement in 2024



Case #2— IFM,PM,EMD —settlement

Key Deficiencies Identified

1. Misclassification of Investment Risk
2. Unsuitable Client Investments
3. Conflicts of Interest
4. Inadequate KYC and Suitability information
5. Substandard Compliance Infrastructure



Case #2—IFM,PM,EMD—settlement

Sections breached

Firm

- **section 11.1, *Compliance system and training*, of NI 31-103**
- **sections 13.2(2)(c) and (4), *Know your client*, and 13.3, *Suitability determination*, of NI 31-103;**
- **section 13.4, *Identifying, addressing and disclosing material conflicts of interest – registered firm*, of NI 31-103;**
- **section 14, *Fair dealing with clients*, of the Securities Rules, B.C. Reg. 194/97 (Rules)**

UDP:

- **Section 5.1, *Responsibilities of the ultimate designated person*, of NI 31-103**
- **section 5.2, *Responsibilities of the chief compliance officer*, of NI 31-103**



Case #2—IFM,PM,EMD—settlement

Settlement:

- The firm agreed to pay back more than **\$390,000** to affected clients and **\$75,000** to the BCSC
- The UDP paid **\$25,000** and agreed **not to seek registration as a CCO or UDP for five years**
- Prior to the settlement, the BCSC had imposed terms and conditions on the firm, including hiring an **independent compliance monitor** for one year.

Relating to the above case, in 2023, the BCSC reached a separate settlement with the portfolio manager at the firm for steering clients into unsuitable investments. The portfolio manager is **no longer registered** and is **prohibited from being a registrant for 8 years**



Case #3— PM— Settlement

[2024 BCSECCOM 486](#)

- **Background**
 - Part of national sweep focused on conflicts of interest provisions adopted as part of CFRs
 - Relies on various referral parties to introduce clients to the firm



Case #3— PM— Settlement

Key Deficiencies Identified

1. Failure to identify and address conflicts of interest
2. Inadequate KYC practices
3. Failure to prioritize client interests
4. Mismanagement of referral arrangements



Case #3—PM—Settlement

Sections breached

- **Section 13.2 and 13.2.01, *Know your client*, of NI 31-103**
- **Section 13.3 *Suitability determination*, of NI 31-103**
- **section 13.4, *Identifying, addressing and disclosing material conflicts of interest – registered firm*, of NI 31-103;**

Settlement:

- The BCSC imposed **11 terms and conditions**, including the hiring of an **independent compliance monitor** at firm's expense
- As part of the settlement, the firm paid **\$60,000** and an additional **\$14,800** for the cost of the compliance exam.



BCSC's website:

www.bcsc.bc.ca/enforcement

Case #2- Settlement:

2024 BCSECCOM 260

Case #3- Settlement:

2024 BCSECCOM 486

Settlements

The executive director of the BC Securities Commission can settle enforcement matters when it is in the public interest. If the executive director and the respondent agree to a set of facts, the executive director issues orders. The respondent may also have to commit to pay an agreed-upon sum.

This page contains settlement agreements and orders.

Effective March 27, 2020, if a person is the subject of certain orders or settlement agreements issued by another securities regulator in Canada, that order or settlement is automatically in effect against the person in British Columbia, without notice to the person and without an opportunity to be heard. For more information about the types of orders and settlements that are automatically in effect in BC, see [Automatic Reciprocal Orders](#).

Search Settlements

Overview of the firm and its products

- Illiquid
- Long-term
- Complex structure
- Timing and market conditions





Other Background Information

- Historical compliance failures
- High number of deficiencies
- Poor compliance culture
- Investor complaints



Conclusion

- Regulatory action
- Key takeaway

Break 2:15 PM to 2:25 PM

Live polls are available now.

Go to: [www.slido.com #7029255](https://www.slido.com/join/7029255)
or scan the QR code:



The CSA Collaboratory and Data Portability

Khalil Jessa, Senior Legal Counsel, CMR Legal Services

Edwin Leong, Lead Compliance Analyst, Adviser/IFM Compliance

What is the CSA Collaboratory?



- Innovation sandbox supporting controlled real-world trials of new financial technologies.
- Proactive engagement between regulators and industry

Key Advantages

- Hands-on experimentation
- Identifying emerging trends and risks to build CSA regulatory expertise.
- Cross-jurisdictional learning

CSA/ACVM
Canadian Securities Administrators / Autorités canadiennes en valeurs mobilières

About Us | Investors | Industry Resources | CSA Activities | National Systems

What can we help you find?

The CSA Collaboratory

A space for regulators and innovators to leverage and channel shared expertise and knowledge to support of evolving Canadian capital markets.

Introducing the Data Portability Test



- Global trends giving users control over their data
- Potential impacts of data portability - streamline onboarding and regulatory compliance
- **e-KYC portability**—clients request transfer of personal and financial data in a structured, machine-readable format.
- Assess legal, operational, and technological complexities, including investor protection considerations and data security.



How the Data Portability Test Works

- Phase 1 – Consultation (Feb–May 2025)
- Phase 2 – Roundtables & Forums
- Phase 3 – Live Testing (Optional)

Real-World Application Examples

- e-KYC portability provider model
- Registrant-to-registrant sharing



CSA 11-406 CSA Financial Innovation Hub Introduces Collaboratory and Data Portability Test

Available on the BCSC's website

The Use of Artificial Intelligence in Capital Markets

Isaac Filate, Senior Legal Counsel, CMR Legal Services

Edwin Leong, Lead Compliance Analyst, Adviser/IFM Compliance



CSA 11-348 Applicability of Canadian Securities Laws and the use of Artificial Intelligence in Capital Markets

Available on the BCSC's website

Closing Remarks

Janice Leung, Manager, Adviser/IFM Compliance, Capital Markets Regulation



Feedback

- Send in your feedback or thoughts for future sessions by end of day
- Go to: www.slido.com #7029255
- Or scan the QR code:

