



**BC Securities  
Commission**  
Invest Right

# Registrant Outreach Workshop

2023

# Welcome address

Mark Wang, Director, Capital Markets Regulation



# Today's Agenda

- Welcome address
- Registration RIME
- Enforcement Actions and lessons learned
- Break (2:05 PM)
- Whistleblower Program
- Issues from the Field
- Closing remarks

# Registration RIME (Relevant Investment Management Experience)

Edwin Leong, Lead Compliance Analyst, Adviser/IFM Compliance

Robert Frey, Registration Officer, Registration



# NI 31-103

## Section 3.11

### for ARs

## Section 3.12

### for AARs

An advising representative of a portfolio manager must not act as an adviser on behalf of the portfolio manager unless any of the following apply:

- a) the individual has earned a CFA Charter and has gained 12 months of relevant investment management experience in the 36-month period before applying for registration;
- b) the individual has received the Canadian Investment Manager designation and has gained 48 months of relevant investment management experience, 12 months of which was gained in the 36-month period before applying for registration.

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An associate advising representative of a portfolio manager must not act as an adviser on behalf of the portfolio manager unless any of the following apply:

- a) the individual has completed Level 1 of the Chartered Financial Analyst program and has gained 24 months of relevant investment management experience;
- b) the individual has received the Canadian Investment Manager designation and has gained 24 months of relevant investment management experience.



# CSA Staff Notice 31-332

*Relevant Investment Management Experience for  
Advising Representatives and Associate Advising  
Representatives of Portfolio Managers*

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## 31-103CP

*Part 3 Registration requirements – individuals*

- *3.11 Portfolio manager – advising representative*
- *3.12 Portfolio manager – associate advising representative*

# Enforcement Actions and lessons learned

**Jason Chan, Senior Compliance Analyst, Adviser/IFM Compliance**

**Janice Leung, Manager, Adviser/IFM Compliance**



# What I will cover today

## Enforcement actions & lessons learned

### Compliance tools

### Enforcement Actions

- Repeat deficiencies
- NI 81-105 issues
- AR's KYC, Suitability



# Compliance tools



- Continuing our examination reviews, such as CFR reviews
- Some firms are not addressing compliance
- Compliance tools:
  - Various terms & conditions (T&C) on registration
    - Individuals (close supervision)
    - Firms (no new clients, no new funds, etc.)

# Settlement case #1 –Repeat deficiencies



[2023 BCSECCOM 253](#)

- **Background**

- Repeat deficiencies
- No current KYC; No evidence of suitability assessments, monitoring and rebalancing client portfolios; No updated PPM
- Previously imposed T&Cs
- UDP and CCO failed to perform his function

- **Enforcement actions**

- Pay \$30,000 in addition to the \$23,000 for the cost of the compliance review
- Provide reports of its compliance system and operations from a compliance consultant



# Settlement case #1—Repeat deficiencies

- **Lessons learned:**
  - Pay close attention to previously identified deficiencies
  - Keep KYC updated as required
  - Update the PPM and tailor it to specific requirements of your firm
  - Document, document, document!

# Settlement case #2—NI 81-105 issues



[2023 BCSECCOM 381](#)

- **Background**
  - Provided monetary benefits and non-monetary benefits to dealing representatives
  - Significant deficiencies in compliance systems
- **Enforcement actions**
  - Pay \$300,000
  - The UDP and CCO are prohibited from becoming or acting as a CCO or UDP for four years.
  - Strict supervision for a total of three years from the date of registration



# Settlement case #2—NI 81-105 issues

- **Lessons learned**
  - Keep the firm and employees updated on compliance requirements
  - Consider conflicts carefully and re-assess periodically
  - Compliance is not the sole responsibilities of the CCO
  - UDPs have responsibilities under s 5.1 of NI 31-103:
    - Supervise the activities of the firm that are directed towards ensuring compliance
    - Promote compliance by the firm

# Settlement case #3—AR's KYC/ Suitability



[2023 BCSECCOM 175](#)

- **Background**
  - Insufficient KYC information
  - Suitability, underlying investments too risky
- **Enforcement actions**
  - Pay \$60,000
  - The AR is prohibited from becoming or acting as a registrant or promoter, and engaging in promotional activities for 8 years



# Settlement case #3—AR's KYC/ Suitability

- **Lessons learned**
  - Individual ARs also bear consequences to their own actions
  - Important to keep sufficient KYC information
  - Document suitability assessment
  - ARs should make sure client investments are on-going suitable, not just at the point of sale

# BCSC's website:



[www.bcsc.bc.ca/enforcement](http://www.bcsc.bc.ca/enforcement)

- Repeat deficiencies - [2023 BCSECCOM 253](#)
- NI 81-105 issues – [2023 BCSECCOM 381](#)
- AR's KYC, suitability issues - [2023 BCSECCOM 175](#)

## Settlements

The executive director of the British Columbia 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](#).



**Break 2:05 PM to 2:10 PM**

# Whistleblower Program

Mark Hilford, Deputy Director, Enforcement





# Whistleblower Program

- Whistleblower Policy in effect as of November 7, 2023
- Whistleblowers are eligible to receive a financial award of \$1,000 to \$500,000

# Ways to File a Whistleblower Tip



**HELP US STOP  
FRAUDSTERS.**

- Go to secure online portal from: [www.bcsc.bc.ca/report-to-us](http://www.bcsc.bc.ca/report-to-us)
- Call the phone number:  
1-866-BCSC-TIP  
(1-866-227-2847)
- Mail-in option also available

# Issues from the Field

Colleen Ng, Senior Compliance Analyst,  
Adviser/IFM Compliance

Crystal He, Senior Compliance Analyst,  
Dealer Compliance

Edwin Leong, Lead Compliance Analyst,  
Adviser/IFM Compliance

# Financial Filings



- Missing auditor and director signatures
- Form 31-103F1 *Calculation of Excess Working Capital*
- Delivery of new subordination agreement
- Financial statements deficiencies
- Late filings
- F5 filings when change auditor

# Financial Filings



Implications of deficient filings:

- Refile and explain why the deficiencies occurred
- Consider it late and result in a late filing fee of \$100/day
- Repeat deficiencies may lead to potential compliance and enforcement actions

# Delivery of new subordination agreements



- (a) 10 days after the date on which the subordination agreement is executed;
- (b) the date on which the amount of the subordinated debt is excluded from the registered firm's non-current related party debt as calculated on Form 31-103F1 Calculation of Excess Working Capital



# Financial Filings



5.	<p>Add 100% of non-current related party debt unless the firm and the lender have executed a subordination agreement in the form set out in Appendix B of National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> and the firm has delivered a copy of the agreement to the regulator or, in Québec, the securities regulatory authority. See section 12.2 of National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i>.</p>		
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# Financial Filings



## *Example #1*

- the firm's year-end date is December 31, 2022
- a subordinated loan agreement of \$100,000 was executed on December 15, 2022
- the above subordinated loan agreement was NOT delivered to the Commission until April 1, 2023

**The firm should add back the \$100,000 on Line 5 of F1 as of December 31, 2022**

# Financial Filings



## *Example #2*

- the firm's year-end date is December 31, 2022
- a subordinated loan agreement of \$80,000 was executed and delivered to the Commission on December 15, 2022
- the firm's December 31, 2022 financial statements showed long-term shareholder loan of \$100,000

**The firm should add back \$20,000 (non-subordinated loan) on Line 5 of F1 as of December 31, 2022**

# Financial Filings



8.	Less minimum capital		
9.	Less market risk ←		
10.	Less any deductible under the bonding or insurance policy required under Part 12 of National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> or, in Québec, for a firm registered only in that jurisdiction and solely in the category of mutual fund dealer, less the deductible under the liability insurance required under section 193 of the Québec Securities Regulation		
11.	Less Guarantees		
12.	Less unresolved differences		
13.	<b>Excess working capital</b>		

# Financial Filings



Management Certification		
Registered Firm Name: _____		
We have examined the attached capital calculation and certify that the firm is in compliance with the capital requirements as at _____		
<b>Name and Title</b>	<b>Signature</b>	<b>Date</b>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

# Financial Filings



## International Accounting Standard (IAS) 1 – *Presentation of financial statements* states:

An entity shall classify an asset as current when:

- (a) It expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
- (b) It holds the asset primarily for the purpose of trading;
- (c) It expects to realise the asset within twelve months after the reporting period; or
- (d) The asset is cash or cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

# Financial Filings



## Opinion

We have audited the financial statements of [REDACTED] (the “Company”), which comprise the statements of financial position as at January 31, 2023 and 2022, the statements of income and comprehensive income, statements of changes in shareholders’ deficiency and statements of cash flows for the years then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial positions of the Company as at January 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with the Financial Reporting Framework specified in paragraph 3.2(3)(a) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards (the “Financial Reporting Framework”) for financial statements delivered by registrants.

# Financial Filings



## International Accounting Standard (IAS) *10 Events after the reporting period*

### Date of authorisation for issue

- 17 An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.





# Financial Filings

## IAS 1 *Presentation of financial statements*

### Capital

**134** An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

To comply with paragraph 134, the entity discloses the following:

- qualitative information about its objectives, policies and processes for managing capital
- summary quantitative data about what it manages as capital
- changes in the above from the previous period
- whether during the period the entity complied with any externally imposed capital requirements to which it is subject and, if not, the consequences of such non-compliance



# Awards and Rankings

## Disclosures:

- What is the entity that administers the award or ranking
- The criteria considered for the award or ranking
- Links



# Exam Findings

- Trusted Contact Person (TCP) and temporary holds
- CFRs
- Books and records
- Policies and procedures manual (PPM)
- MIEs

# Exam Findings



## Section 14.2(2) of NI 31-103

(l.1) a description of the circumstances under which a registrant might disclose information about the client or the client's account to a trusted contact person referred to in subsection 13.2.01(1)

(p) a general explanation of the circumstances under which a registered firm or registered individual may place a temporary hold under section 13.19 and a description of the notice that will be given to the client if a temporary hold is placed or continued under that section.

# Exam Findings



## *Client's personal circumstances*

Subparagraph 13.2(2)(c)(i) requires the registrant to ensure that it has sufficient information about the client's personal circumstances. For individuals, this includes:

- date of birth
- address and contact information
- civil status or family situation
- number of dependants
- employment status and occupation
- whether someone other than the client is authorized to provide instructions on the account, and whether someone other than the client has a financial interest in the account

For non-individuals, this includes:

- legal name
- head office address and contact information
- type of legal entity, i.e. corporation, trust, or other entity
- form and details regarding the organization of the legal entity, i.e. articles of incorporation, trust deed, or other constating documents
- nature of business
- persons authorized to provide instructions on the account and details of any restrictions on their authority, and
- whether someone other than the client has a financial interest in the account



# Exam Findings

- Trusted Contact Person (TCP) and temporary holds
- CFRs
- Books and records
- Policies and procedures manual (PPM)
- MIEs

# Client Focused Reforms Conflicts of Interest Resources



- 1) BCSC's [2022 Annual Compliance Report Card](#)
- 2) [CSA Staff Notice 31-363 Client Focused Reforms: Review of Registrants' Conflicts of Interest Practices and Additional Guidance](#)
- 3) [Client Focused Reforms – Frequently Asked Questions](#)

## Section 13.3(1) *Suitability determination of NI 31-103*



- (a) the action is suitable for the client, based on the following factors:
  - (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;
- (b) the action puts the client's interest first



## Section 13.3(2) *Suitability determination* of NI 31-103



- (a) a registered individual is designated as responsible for the client's account;
- (b) the registrant becomes aware of a change in a security in the client's account that could result in the security or account not satisfying subsection (1);
- (c) the registrant becomes aware of a change in the client's information collected in accordance with subsection 13.2(2) that could result in a security or the client's account not satisfying subsection (1);
- (d) the registrant reviews the client's information in accordance with subsection 13.2(4.1)



[Home](#) > [Industry](#) > [Registrant Regulation](#) > [Compliance Toolkit](#) > [Understanding Your BCSC Compliance Examination](#)

◀ [Registrant Regulation](#)

**Compliance Toolkit**

[Understanding Your BCSC Compliance Examination](#)

[The Role of the Chief Compliance Officer](#)

[Financial Filings & Working Capital](#)

[Helping Clients Understand the Client Relationship Model - Phase 2 \(CRM2\)](#)

[Client Relationship Management Specialists](#)

[Prospectus Exemptions for Registrants](#)

[Ethics](#)

[Client Focused Reforms – Frequently Asked Questions](#)

[Conditions of Registration and Rule for U.S. Over-the-Counter Markets](#)

[Conducting Background Research](#)

## Understanding Your BCSC Compliance Examination

The field examination is the main tool we use to monitor registrants. Examinations help ensure firms are conducting their activities in accordance with securities legislation. The authority to conduct examinations is set out in section 141.2 of the Securities Act, RSBC 1996, c. 419. If a firm is a reporting issuer or other market participant, we will also conduct the examination under sections 141.3 and 141.4 of the Act, respectively.

This page explains why we carry out examinations, how we conduct them, and what we do to resolve issues found.

[Why Are You Examining My Firm?](#)

[Do I Receive a Compliance Report?](#)

[Does the BCSC Examine All Registrants?](#)

[Do You Charge Fees for the Compliance Examination?](#)

[Who Conducts These Compliance Examinations?](#)

[How Are Examination Findings Handled?](#)

[What is The Examination Process?](#)

[Where Can I Learn More Information About Good Compliance Practices?](#)

[What Kind of Books and Records do the Examiners Review?](#)

[What is the Registrant Outreach Program?](#)

[How Long Does an Examination Take?](#)

[Can I Speak to Someone if I Have a Question?](#)

### Why Are You Examining My Firm?

Certain market participants that trade or advise in securities in B.C. must register under section 34 of the Act, unless they rely on a registration exemption. The examination program

## [Understanding Your BCSC Compliance Examination](#)



## CSA Staff Notice 31-358

### *Guidance on Registration Requirements for Chief Compliance Officers and Request for Comments*

July 2, 2020

#### **Introduction**

As part of our ongoing commitment to reduce regulatory burden, staff of the Canadian Securities Administrators (CSA) (**staff** or **we**) are providing this notice (the **Notice**) to set out guidance regarding the registration requirements for chief compliance officers (CCOs) under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) for certain CCO models.

#### **Executive Summary**

In this Notice, staff provide guidance on the following CCO models:

- 1) an individual applying to be the CCO for more than one firm (the **shared CCO model**);
- 2) a firm applying to have multiple CCOs, each responsible for one or more business lines and/or different registration categories within the firm (the **multiple CCO model**); and

[CSA Staff Notice 31-358](#)

# Closing Remarks

Mark Wang, Director, Capital Markets Regulation