

Citation: 2024 BCSECCOM 486

Settlement Agreement

WealthBar Financial Services Inc. (doing business as CI Direct Investing)

Securities Act, RSBC 1996, c. 418

- ¶ 1 The Executive Director of the British Columbia Securities Commission (the Executive Director) and WealthBar Financial Services Inc., doing business as CI Direct Investing (WealthBar), agree as follows:

Agreed Statement of Facts

Background

- (a) WealthBar is a federally incorporated company with a registered office in Toronto, Ontario. WealthBar has been registered with the British Columbia Securities Commission (the Commission) as a portfolio manager (PM) since 2014. WealthBar is also registered as a PM in all other Canadian jurisdictions.
- (b) WealthBar acts as a discretionary PM for its clients. WealthBar operates as an online adviser, primarily interacting with clients through a digital platform on its website.

Misconduct

- 2. In 2021, the CSA introduced rules, known as the Client Focused Reforms, which resulted in amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) and its companion policy. These amendments were introduced in two phases: the conflicts of interest reforms took effect on June 30, 2021, and the relationship disclosure reforms took effect on December 31, 2021.
- 3. WealthBar was the subject of a CSA Conflicts of Interest sweep in January 2022 (2022 Sweep). During the 2022 Sweep, Commission staff completed a limited scope compliance examination to evaluate WealthBar's compliance with regulatory requirements following the implementation of the Client Focused Reforms.
- 4. The 2022 Sweep revealed deficiencies in WealthBar's compliance system:
 - (a) Following the implementation of the Client Focused Reforms on June 30, 2021, WealthBar failed to:
 - (i) identify all existing material conflicts of interest;

- (ii) address these unidentified conflicts in the best interest of the clients; and
 - (iii) have sufficient disclosures regarding the potential conflicts of interest that arose from referral arrangements, contrary to section 13.4 of NI 31-103.
- (b) Following the implementation of the Client Focused Reforms on December 31, 2021:
- (i) WealthBar failed to put the interests of clients referred by third parties first when WealthBar invested referred clients only into specific model portfolios benefitting the referral party instead of considering a reasonable range of alternative actions, thereby not meeting suitability obligations under section 13.3 of NI 31-103.
 - (ii) WealthBar did not adequately meet Know Your Client (KYC) obligations because it did not have sufficient questions in its online KYC questionnaire and failed to ensure that its advising representatives always had a meaningful discussion with clients when required, contrary to sections 13.2 and 13.2.01 of NI 31-103.

WealthBar's misconduct with respect to its referral arrangements

5. WealthBar had agreements with 12 referral parties that should have been identified as referral arrangements under NI 31-103 after the implementation of the Client Focused Reforms on June 30, 2021. These reforms expanded the definition of a "referral fee" under NI 31-103 to include any monetary or non-monetary benefits provided for the referral. While WealthBar did not receive any monetary benefits for referrals from these referral parties, it received non-monetary benefits that were captured by the new definition.
6. By not considering these relationships as referral arrangements, WealthBar did not accurately consider all the conflicts posed by these relationships and the potential impact on its clients. As a result, WealthBar failed to identify, address or make disclosures regarding actual and potential conflicts of interest arising from these referral arrangements.
7. Further, clients who signed up for WealthBar's services through four of the referral parties were only considered for portfolios curated for the referral source and not any other portfolios offered by WealthBar. Similarly, clients who signed up for WealthBar's services directly were not considered for products managed by the referral sources.
8. WealthBar assumed that clients expressed a preference for their investment portfolio when signing up for WealthBar's services through the referral party. This assumption fell below the standards required of a discretionary PM.

9. While WealthBar made disclosures about its referral party relationships to clients and told clients that only limited portfolios would be considered when making an investment recommendation, this disclosure was not sufficient to discharge WealthBar's duties as a discretionary PM. WealthBar was required to assess suitability based on all its portfolio offerings, including a reasonable range of alternatives available at the firm, for every client.

WealthBar's misconduct with respect to its KYC practices

10. WealthBar uses an online questionnaire to collect KYC information from its clients or potential clients.
11. Since 2017, WealthBar has operated as a "call-as-needed" online adviser and is subject to the standard Canadian Securities Administrators (CSA) registration terms and conditions for this type of business model. The standard CSA terms and conditions set out the criteria for when WealthBar can primarily rely on the online KYC questionnaire without a required call to the client. If the criteria are not met, WealthBar must always call the client to have a meaningful discussion prior to recommending an investment portfolio.
12. At the time of the 2022 Sweep, WealthBar's online questionnaire did not have all the questions expressly required under NI 31-103, as follows:
 - a. Under section 13.2(2)(c)(iii): Clients were not asked to provide sufficient details about investment needs or objectives. Clients were asked about short-term liquidity needs and investment time horizons, but insufficient detail was collected to satisfy this requirement.
 - b. Under section 13.2(2)(c)(iv): Clients were not asked to describe their level of investment knowledge, as WealthBar assumed that clients had a basic level of investment knowledge.
 - c. Under section 13.2(2)(c)(v): Inadequate detail was collected about the client's willingness to accept risk, as part of the required risk profile determination.
 - d. Under section 13.2.01: Clients were not asked to provide the name and contact information of a trusted contact person at the time of onboarding, although WealthBar provided clients with information about how to name a trusted contact person in its relationship disclosure information.
13. While a WealthBar advising representative reviewed each client questionnaire, WealthBar did not ensure that its representatives always had a meaningful discussion with clients prior to recommending an "always call" investment portfolio or investing a client in an "always call" portfolio. WealthBar's intake process incorrectly placed the onus on clients to initiate the conversation with a WealthBar advising representative for WealthBar's "always call" investment portfolios.

Factors Relevant to Settlement

14. In 2018, the Quebec Autorité des Marchés Financiers (AMF) conducted a limited scope examination of WealthBar's operations and found that WealthBar had breached its registration terms and conditions. The Commission did not impose any registration terms and conditions as a result of the AMF's examination.
15. In 2019, Commission staff conducted a compliance examination of WealthBar's marketing materials and identified issues. On March 19, 2020, the Commission imposed registration terms and conditions on WealthBar to address Commission staff's concerns about WealthBar's marketing practices. The compliance monitor confirmed that WealthBar corrected each deficiency identified. On May 27, 2021, the Commission removed the registration terms and conditions.
16. After the 2022 Sweep, on August 1, 2023, the Commission imposed 11 registration terms and conditions on WealthBar that were intended to mitigate ongoing risk to WealthBar's clients and to bring WealthBar's compliance system to the standards required of a registrant.
17. WealthBar retained an independent compliance monitor for one year, at its own cost, as required by the terms and conditions. The compliance monitor confirmed that WealthBar corrected each deficiency identified in the 2022 Sweep. On October 18, 2024, the Commission removed the registration terms and conditions.
18. WealthBar paid \$14,800 to the Commission for costs of the 2022 Sweep.

Mitigating Factors

19. It is a significant mitigating factor that WealthBar entered into this settlement and allowed the Commission to avoid a potentially lengthy hearing to determine liability.
20. WealthBar cooperated with the Commission during the 2022 Sweep and throughout the investigation and enforcement process leading to this settlement.
21. The Commission has not received any investor complaints regarding WealthBar.

Undertakings

22. WealthBar undertakes to pay \$60,000 to the Commission in respect of settlement of this matter which sum is due and payable immediately without further demand.

Waiver

- ¶ 2 WealthBar waives any right it may have, under the Act or otherwise, to a hearing, hearing and review, judicial review or appeal related to, in connection with, or incidental to this settlement.

Counterpart

¶ 3 This Settlement Agreement may be signed in counterpart and all such counterparts of signed copies, whether delivered electronically or otherwise, shall be read or construed together as if they formed one originally executed document.

¶ 4 November 28, 2024

¶ 5 “WealthBar Financial Services Inc.”
WealthBar Financial Services Inc.
(Signing Authority)

Redacted)
Witness Signature)
Redacted)
Witness Name (please print))
Redacted)
Redacted)
Address)
Redacted)
Occupation)

Peter J. Brady
11/28/2024 | 2:43 PM PST

¶ 6 Peter J. Brady
Executive Director