2023 Annual COMPLIANCE Report Card

BC Securities Commission
Invest Right

September 2024

This compliance report card summarizes the findings that our compliance teams made in the course of their reviews of the compliance programs of B.C.-based portfolio managers (Advisers or PMs), investment fund managers (IFMs), and exempt market dealers (EMDs) from January 1, 2023 to December 31, 2023.

We provide this report card to chief compliance officers (CCOs) and compliance professionals to help them improve their compliance programs. The report card highlights problem areas we observed and explains our approach to compliance examinations.

Our firms

On December 31, 2023, the BC Securities Commission (BCSC) had 169 directly registered firms (excluding CIRO firms). Based on the nature of each firm's business, our directly registered firms consisted of:

- 89 Adviser firms (including IFMs), that the Adviser/IFM compliance team oversees
- 80 Dealer firms (including EMDs), that the Dealer compliance team oversees

Our approach to regulation

Our goal is to foster a culture of compliance among market participants. Where we find serious, systemic and/or repeat compliance failures, or dishonest conduct, we will take decisive action. The past year, we found significant failures of compliance that resulted in the imposition of terms and conditions on registration and a referral to our Enforcement branch.

We help our registered firms foster a culture of compliance by assigning dedicated relationship managers (RMs) to each firm. Our RMs maintain communications with the firms assigned to them. They understand each firm's business and compliance program. We encourage firms to contact their RMs to discuss compliance-related issues or to report changes in their business or personnel. Please contact us if you do not know your RM (see contact details at the end of this report card).

To gauge compliance among the firms we regulate, the BCSC uses a risk model to analyze data that our registered firms provide in a biennial risk questionnaire. The responses help us identify the latest information for registrants such as significant growth, management changes, new products, and the use of higher risk investment strategies. The risk questionnaire information and the risk model help us choose firms with factors or patterns that may increase a firm's risk for our compliance examinations.

We also include some firms for review based on the time elapsed since their last review. Once we choose a firm to review, we use the information we know about that firm to tailor our compliance review program to test any compliance risks we have identified. If we receive information or complaints that indicate any market participant may be seriously non-compliant or dishonest, we may conduct a "for cause" review.

COMPLIANCE REVIEW FINDINGS - TOP DEFICIENCIES

In our compliance reviews of registrants, we tested 49 deficiency categories covering nine operational areas.

From January 1, 2023 to December 31, 2023, we conducted 15 compliance reviews and found 120 compliance deficiencies, averaging eight deficiencies per review.

Year[1]	Average number of deficiencies per review
2023	8
2022	4.85[2]
2021	6.77
2020	8.14
2019	8.93

The average number of deficiencies per firm is meant to be a reference and not a definitive measure of a firm's compliance status. This year, 40% of the compliance deficiencies arise from examinations where we took compliance and/or enforcement action.

The five top ranking deficiencies in 2023, averaged between EMD and Adviser/IFM businesses, represent 82 out of 120 (approximately 68%) of all of the compliance deficiencies we found, as follows:

Deficiency type	Number of Deficiencies	% of all Deficiencies	*Average overall rank*
Know-your-client (KYC) and suitability	19	16%	1
Policies and procedures	17	14%	2
Client statements and reporting	15	13%	3
Conflicts of interest (COI)	11	9%	4
Disclosure	10	8%	5
Advertising, marketing, and holding out	10	8%	5
Total	**82/120**	**68%**	

Some of our examination initiatives and examples of the compliance deficiencies found this year are set out below.

[1]For 2021, the deficiency tracking period is from January 1, 2021 to December 31, 2021, and for 2020, the tracking period is from April 1, 2019 to December 31, 2020. For all other previous years, the deficiency tracking period is from April 1 of the previous year to March 31 of the noted year (for example the tracking period for 2019 is from April 1, 2018 to March 31, 2019.

[2]In 2022, a large number of reviews were part of the Canadian Securities Administrators (CSA) Client Focused Reforms - Conflicts of Interest sweep, where we mostly identified deficiencies limited to conflicts of interest. These limited scope reviews contributed to a comparatively lower average number of deficiencies in 2022.

PHASE TWO OF THE CSA CLIENT FOCUSED REFORMS (CFR) SWEEP

Alongside other members of the CSA, both compliance teams participated in the second phase of the CFR sweep to review the implementation of key CFR provisions including know-your-client (KYC), know-your-product (KYP), and suitability in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103). The sweep is currently ongoing, and the CSA will consider publishing the findings and additional guidance upon its completion.

We continue to receive questions and engage in discussions with firms about the enhanced KYC, KYP, and suitability requirements. Some of the issues we have discussed with firms include:

- Some firms have not changed their client risk assessment process to consider risk profile, but instead continue to rely on just having clients check off a risk tolerance level. Firms need to gather information on risk tolerance and risk capacity to be able to conclude on a client's risk profile. The risk profile for a client should reflect the lower of:
    a) the client's willingness to accept risk, and
    b) the client's ability to endure potential financial loss

  The analysis and the resulting risk profile determination need to be documented. The guidance in the Companion Policy (CP) to NI 31-103, describes what the process should include, such as questions to determine a client's willingness to accept risk and ability to endure potential financial loss.

- The CFRs have enhanced the KYC process to require a registrant to take reasonable steps to have a client confirm the accuracy of KYC information within a reasonable time. While NI 31-103 does not prescribe the method for KYC collection, firms need to have procedures and records in place to demonstrate client confirmation. For example, the updated KYC information might have been obtained through a phone call or virtual meeting with the Advising Representative (AR) or Associate Advising Representative (AAR) making notes of the changes. The AR/AAR should provide written confirmation to the client with the changes and give the client an opportunity to make corrections.

- Many registrants conduct KYP, but do not maintain evidence of what records they have reviewed and their assessment. We expect to see a documented KYP process, as well as records demonstrating that the KYP process is followed. Simply keeping copies of issuer's documents (such as quarterly reports, MD&A) and third-party analysts' reports are insufficient. The records should show the registrant's process of assessing the security. This includes assessing the relevant aspects of the securities (structure, features, risks, initial and ongoing costs, and impact of these costs). There should also be documentation of the ongoing monitoring for significant changes of approved securities. We expect firms to not only document KYP when new securities are approved, but also when securities are removed from the approved list or clients' portfolios (as part of a firm's ongoing review and reassessment of suitability).

- Some firms have not incorporated policies and procedures to consider a reasonable range of alternative actions as part of its suitability process. If a suitability assessment of the specific suitability factors results in more than one possible suitable recommendation for the client, the AR should document why they are recommending one option over the other(s). This is important to show how the registrant is putting the client's interest first when there is more than one suitable option. We acknowledge that for firms that offer a limited number of model portfolios or products, there may only be one obviously suitable choice. In such circumstances, the documentation might be less compared to when there are multiple suitable choices.

The CSA has published guidance on the enhanced KYC, KYP, and suitability requirements in the CP to NI 31-103 as well as *Client Focused Reforms: Frequently Asked Questions* last published on December 6, 2023.

In last year's report, we discussed the CSA CFR sweep on COIs. In August 2023, the CSA, along with CIRO, published *CSA Staff Notice 31-363 Client Focused Reforms: Review of Registrants' Conflicts of Interest Practices and Additional Guidance*. This Staff Notice provides a summary of the conflicts sweep and guidance on regulatory expectations.

While many firms have taken steps to enhance their COI process, some firms appear not to have thought about their conflicts until compliance staff raise them during a compliance review. These firms have minimal content in their policies and procedures for recognizing and addressing conflicts. A registered firm should be mindful that it cannot properly address a material conflict in the best interest of its clients unless it has adopted robust policies and procedures to, among other things, accurately identify the conflict in a timely way.

Since the publication of the staff notice, we have received feedback and questions from firms on the following topics:

- Training and recordkeeping
- Referral arrangements
- Internal compensation
- Fees charged to clients

Training and Recordkeeping

Across Canada, over 80% of firms reviewed during the COI sweep were found to be providing adequate training and every firm we reviewed in B.C. was found to be providing training. In B.C. we found some firms provided training that was not specific to the firm's business. We expect firms to go beyond the routine and generic training of the CFRs and assess conflicts specific to their business, and how the firm will manage and address those conflicts in the best interest of clients.

One of our firms failed to discuss its own conflicts in its training materials. The firm already knew it had a significant conflict with how it earned fees from products instead of directly from clients. This firm had already produced a new fee structure to address the conflict, but the firm did not outline this conflict in its training materials.

With the CFRs, documentation has become a recurring theme, because the regulatory expectations have increased. We remind all registered firms that they must have records to demonstrate compliance with the conflicts obligations, which typically means listing out the specific conflicts in an inventory or matrix, with notes on what controls are in place to manage the conflicts, and how the firm has addressed the conflicts in the best interest of clients. This conflicts inventory should be reviewed and updated regularly, as well as included as part of the CCO's annual reporting to the firm's board.

If, as part of the regular review of conflicts, firms assess that new conflicts have arisen, then the new conflicts must be disclosed to clients. The disclosure should not just be about the new conflicts, but also about the controls and how the firm addressed the conflicts in the best interest of clients. Firms should also document when they updated the conflicts disclosure and delivered it to their clients. Some firms post disclosure information on their websites believing that they have “delivered” disclosure to their clients, but this on its own is not acceptable as we expect actual communication with the clients about the disclosure and any updates to them.

Referral arrangements

Many firms have referral arrangements, but prior to the CFRs, many PM firms receiving new clients from their referral partners, failed to recognize that referral arrangements create conflicts of interest that need to be addressed in the best interest of clients. As such, these firms’ disclosure was also deficient because they failed to identify and disclose the conflicts arising from their referral arrangements. CSA staff notice 31-363 discusses the conflicts relating to referrals in arrangements and referrals out arrangements.

Other conflicts can arise depending on the structure of the referral arrangement. The majority of PMs that have referral arrangements pay a portion of their management fee to the referral agent for the referral. The referred client does not pay any more fees than a non-referred client regardless of whether the referral agent continues to provide services to the client that is separate from the PM firm. However, there are some PM firms that do not pay a referral fee to the referral agent. Instead, the client pays two fees for services provided by the PM and by the referral agent. Both fees may be collected by the PM for convenience, with the PM remitting the collected fee to the agent on behalf of the client. The PM may state that its fee is its own and the other fee is the agent’s own to be negotiated between the agent and the client for services that the agent provides to the client, such as financial planning. In one review, we found that there was no discussion between the client and the agent on the fee-for-service for the referral agent. What we found was that the referral agent’s service fee had been negotiated between the PM and the agent, and the clients were presented with one all-in fee covering both the PM and the agent.

In the situation described in the previous paragraph, we expect firms to have a process to verify that the agent is providing legitimate services to the client. It is not sufficient for the registrant to accept at face value an unverified commitment by the agent to provide services. In addition to having a written agreement between the PM and the agent outlining what those services are, firms should obtain direct confirmation from the clients about what services the agent is providing.

Internal compensation

If a firm has sales or revenue targets, whether that be for assets under management on a global or individual client level, the sales and distribution of products managed by the firm, or bonuses that are tied to how much business a representative brings to the firm; these are conflicts that need to be addressed in the best interest of clients. If your firm has these types of compensation practices, there should be disclosure of these conflicts to clients.

The companion policy to NI 31-103 provides examples of controls for internal compensation, including:

- maintaining compensation arrangements that do not differ by product or service sold, or by account, or client type
- applying consequences for inappropriate behaviour or activities in pursuit of sales or revenue
- tying a portion of variable compensation to the absence of valid client complaints, or to compliance with policies and procedures
- limiting the portion of compensation that is variable
- deferring payment of a portion of the compensation or incentive

Fees charged to clients

The majority of firms in B.C. have standard fee schedules and generally, the higher the Assests Under Management (AUM) of a client, the lower the fee. A firm's fees are its own as agreed to between the firm and its clients so long as the firm is fair to all clients.

Where fees can become problematic is when firms allow negotiation of fees or have a myriad of non-standardized fees. For example, if a firm hires a new AR who comes with a large book of business, that AR, over time, may have allowed the fees to become inconsistent, and as a goodwill gesture, the new firm honours those fees. Alternatively, the firm may have allowed its ARs to set the fees with the clients.

These scenarios create conflicts between the firm and its clients, as there will be clients who negotiated lower fees, and there will be clients who have the same AUM and receive the same service but are paying higher fees. There is also an issue if the firm did not disclose to the clients paying the standard fees that the firm is open to fee negotiations.

Where firms allow fees to be negotiated, firms should implement controls and processes to make it clear under what circumstances clients can negotiate fees or deviate from the firm's standard fee schedule, and more importantly be transparent with all clients

The CSA guidance explains that where the firm has a standard fee schedule but allows some clients to negotiate fees or deviate from the standard fee schedule, the firm is expected to:

- implement guidelines or criteria for circumstances where a deviation from the standard fee schedule would be acceptable, to help ensure consistent application of the process across clients
- implement a process requiring a registered individual that proposes to deviate from the standard fee schedule to seek prior approval
- disclose to all clients with a description of the circumstances under which the firm is prepared to negotiate fees or deviate from the firm's standard fee schedule

Financial filings deficiencies

We have identified an increasing number of deficiencies in financial information submissions, including excess working capital calculations, from adviser/IFM firms. Common missing or inadequate items on the audited annual financial statements include:

- Current assets include related party receivables that are payable on demand and do not have fixed repayment terms. These receivables should be classified as non-current assets if there is no reasonable assurance that the receivables will be collected within the firm's normal operating cycle or 12 months after the reporting period. Incorrect classification can lead to an overstatement of the firm's current assets and its excess working capital.

- The auditor's report should provide an audit opinion covering two fiscal years. We require the audit opinion to refer to both the current and prior year. NI 31-103 requires comparative annual financial statements that are audited; therefore, the auditor's report should refer to the comparative financial statements as well. The only exception to this is if a firm has changed its auditor, in which case, the new auditor cannot opine on the previous year's audit. The audit opinion by the new auditor should note that the prior year's audit was performed by a different auditor.

- The notes to the financial statements should include related party disclosures. IFRS[3] requires disclosure of key management personnel compensation, related party transactions, and outstanding related party balances.

- The notes to the financial statements should include disclosure of IFRS adoptions that may impact future periods. IFRS requires disclosure about any new IFRS requirements that are issued, not yet effective, not applied by the firm, and how the new requirements will likely impact the firm. There is a specific list of items that must be discussed in the financial statement note.

- The auditor's report is missing the auditor's signature, while the statement of financial position is missing a director's signature.

[3]Registrants are required to comply with Section 3.2(3) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* when preparing annual financial statements and interim financial information as required by NI 31-103. This section requires the preparation of registrant financial information in accordance with Canadian Generally Accepted Accounting Principles applicable to publicly accountably enterprises, which is International Financial Reporting Standards (IFRS).

We also found common deficiencies relating to excess working capital calculations:

- Some firms failed to deliver new subordination agreements to us within 10 days of executing the agreement. If the BCSC does not have a copy of a subordination agreement, firms must include 100% of the related party debt as current liabilities on line 5 of Form 31-103F1, until they submit the agreement. The failure to file the subordination agreement may lead to a working capital deficiency.
- There are no adequate records to demonstrate that the registered firm has monitored its excess working capital calculation on at least a monthly basis.
- For firms that submit quarterly, the prior period column did not match what was submitted for the previous quarter and no explanation was provided for the discrepancy.

Dealer-specific deficiencies

We reviewed 10 dealer firms, and all acted as dealer for related issuers. One dealer also acted for third-party issuers in addition to its related issuer. Of the 10 firms reviewed, 8 were first reviews of captive firms that distribute the securities of related mortgage investment entities.

Many of the compliance deficiencies we observed can be attributed to the firm's inexperience as a regulated dealer. Firms did not pay adequate attention to new regulatory requirements and their implementation dates. Firms failed to review their operating practices on an ongoing basis and implement the needed changes to bring them into compliance. The captive nature of their business, limited product offerings, concentrated exposure to the real estate sector, present unique COI, KYC, and suitability challenges. Our findings include:

- Policies and procedures manuals that have not been updated since registration, do not reflect current applicable regulatory requirements, and are often inconsistent with the firm's current operations.
- Failures in periodic reassessments of their relationship with clients as the firm moves from a transactional to an ongoing relationship with the passage of time.
- Failures in conducting regular KYC updates and suitability reassessments as well as CRM2 client reporting (account statements, annual costs report, and performance reports).

- Inadequacies in addressing the concentration risk in client portfolios leading to suitability assessment failures.

- Firms sharing office space and administrative personnel with other parties, related and unrelated, without proper contracts for service and confidentiality agreements to keep client information safe.

- Firms sponsoring Dealing Representatives (DR) who are employed, compensated, and report to the related party issuer, resulting in COI and holding out deficiencies.

“Renting out” of registration and payments to unregistered entities.

In last year’s Report Card, we reported on situations where a registered entity “rents out” its registration. Rental of registration is when a registered firm partners with entities that are either not registered, or are registered in a limited capacity, such as an EMD, and the business is structured in such a way that the unregistered entity enjoys the benefits of registration. We are seeing more of this type of business model, which concerns us, because the registered firms have not fully considered whether their specific model is compliant with securities legislation.

One example we noted was a PM/IFM firm entering into service agreements with several unregistered issuers to act as the PM and IFM for the issuers’ funds. What we found was:

- A compensation structure that diverted the vast majority of the management fee revenue to the unregistered issuers, so much so that the PM received such minimal fees as to question the commercial value of these arrangements.

- The PM registered individuals who are also employees of the issuers – these individuals provided advice only to the funds manufactured by their issuers and had no other activities within the broader range of services and products offered by the PM. These registered individuals were also not properly supervised by the PM, but instead reported to the issuers.

- The PM paid almost nothing in salary, and in some cases, zero salary to the registered individuals, because most of the fees collected from managing the issuer funds were diverted to the issuer. This brought into question who the registered individuals actually work for.

- There were significant conflicts of interest that were not managed and addressed appropriately. The most concerning of the conflicts is what we describe as a circular conflict:
    - The issuer retains the services of the PM/IFM to notionally advise and manage a fund.
    - The PM registers one or two of the senior managers of the issuer to advise the fund.
    - Nominally, the PM should be supervising the individuals it registered from the issuer.
    - Instead, the PM, as a service provider, also reports to the same individuals in their capacity as the senior managers of the issuer, who hired the PM in the first place.
- The PM rubber stamped all the advice to the fund with no objective scrutiny as to whether the advice was in the best interest of the fund.

In addition, the PM was paying for research generated by the issuer, but the nature of that research was registrable activity conducted by the issuer. In practice, this PM firm facilitated the issuer effectively becoming an unregistered sub-adviser to the issuer's own fund. The outcome of our review was compliance action that imposed the highest number of terms and conditions ever on a firm, including retaining a compliance monitor to oversee the firm's restructuring of the business model.

Another example we encountered is a registered firm offering white label portfolio management services to unregistered partners. This registered firm recognized that their partnerships were referral arrangements but only provided non-specific, generic disclosure to the referred clients. The white label service is problematic, because the firm is offering registered services to unregistered entities, but in a way that the client will think the registered services have come from the unregistered entity.

There is some disclosure and acknowledgement that the investment services and products are offered by the registered firm, but the disclosure and recognition is minimized as much as possible, and the unregistered entity's name and profile dominates. In one instance, clients going through the onboarding process wanting to discuss the application, are to contact the unregistered entity for assistance first before being directed to the registered firm. We are concerned with this business model because it facilitates the marketing and the perception that these unregistered entities are offering investment services and securities.

While the examples are from specific business models, there are elements of it that can be found in more traditional business arrangements, such as referral arrangements with financial planners. Registered firms may not be conducting due diligence on their referral partners and how those referral partners are marketing the relationship with the registered firm. We have found instances of unregistered financial planner websites that had a number of misleading statements that implied the planner was the one offering portfolio management services and investment funds, while minimizing the role of the actual registered firm.

Registration RIME Issues

Although we discussed RIME issues in the last annual report card and in the November 2023 Registrant Outreach, the BCSC continues to receive questions about our expectations for individual registration applications and relevant investment management experience (RIME).

When registration applications are complete and provide adequate RIME information, the majority of individual applications are processed and accepted on a timely, routine basis. Examples of why individual AR/AAR applications are delayed or not immediately accepted include:

- *Non-responsive to the BCSC's follow-up questions* – some applicants took months to respond to Registration staff's follow-up questions. When the response finally arrived, a new round of follow-up and clarification was needed to resolve discrepancies, as often, the revised RIME no longer matched the RIME described in the original application.

- *Poorly written and formatted applications* – applications often provide irrelevant information and little substance as to what the individual's RIME includes. We then have to clarify with the sponsoring firm:
  - How much time is this person spending on actual relevant activity?
  - How much of that time is spent on research and analysis?
  - And if relevant, how much time is spent on managing client relationships?

- *Not meeting the time experience required for RIME* – many applicants misunderstand the time experience requirement, for example, a CFA charter holder starts work at a firm on January 1, 2023, and then on January 1, 2024, applies to become an AR. We review the application and conclude that in fact, the person only spent 50% of their time on activities that qualify as RIME. In this scenario, the person will have to gather more RIME before we accept that the 12-months of RIME requirement has been met.

- *The work is not RIME* – many individuals attempt to use a myriad of broad, financial experience as RIME; however, the BCSC does not typically accept the following as RIME:
  - watching BNN
  - visiting Morningstar (and any similar) website
  - producing a performance report, which is mostly an automated process
  - attending industry seminars and conferences

- *The wrong type of RIME* – some applicants apply to be an unrestricted AR, but upon review, we find their job is to only manage client relationships, and they did not obtain adequate RIME to become an AR, such as in securities research and analysis. The firm's business model is typically one that uses model portfolios created and managed by a separate team of ARs. Depending on the individual's experience, we may consider registration as an AAR, or as an AR with the client relationship manager terms and conditions as more appropriate.

To ensure a timely result, please ensure that you consult all available guidance before filing a registration application, include only relevant information, and omit any unnecessary or extraneous information.

If your firm needs help finding registration information, please reach out to your RM or BCSC Registration staff.

HOW WE TREAT NON-COMPLIANCE

The CCO must monitor and assess compliance by the firm, and individuals acting on its behalf, with securities legislation. Where we find instances of non-compliance with regulatory requirements, we expect the CCO to take immediate action to resolve these deficiencies. When we see non-compliance, we can:

- require a firm to rectify its compliance program
- impose registration terms and conditions to reduce the risk of non-compliance
- suspend registration
- take enforcement action

Compliance action

In 2023, we continued to take compliance action against non-compliant firms that demonstrated significant compliance weaknesses, including imposing registration terms and conditions that:

- required firms to hire a compliance monitor to work with them to remedy compliance deficiencies (see the CSA staff notice on the use of compliance monitors)
- prevented firms from accepting new clients until they had rectified their compliance failures
- prevented firms from accepting new referral arrangements until they had developed a compliant referral arrangement regime
- prevented firms from conducting trades for clients until they updated clients' KYC information and reassessed suitability
- prevented firms from registering new representatives until they were able to demonstrate that they had put in place an appropriate compliance and supervisory system
- required firms to reassess their COIs and deliver revised COI disclosure to clients
- prevented firms from acting as the dealer on trades of securities issued by a related party until they had rectified their compliance failures

Conditions placed on the registration of a firm are public and reported on National Registration Database (NRD) and the public National Registration Search service.

We have also charged costs for our compliance reviews. We charge costs when we expend significant staff resources arising from significant compliance failures or repeat deficiencies. We may also charge costs when a firm fails to maintain records, or provide proper records during a compliance review in a reasonable time.

Enforcement action

In past years, we referred a number of adviser and dealer firms to our Enforcement division. We refer firms for enforcement action when we see systemic or significant failures that pose risks to clients, repeat significant deficiencies that firms fail to resolve, or the need for significant further investigation. In these instances, the firms have cultures of compliance that fall significantly short of our expectations. Actual client harm is not a prerequisite for an enforcement referral. Enforcement outcomes are public.

Settlements

In 2023, we reached several settlement agreements with registered firms and registered individuals, including:

- A PM who failed repeatedly to maintain current and accurate KYC information for its clients that would enable it to meet its suitability obligations, breaching sections 13.2 and 13.3 of NI 31-103 (KYC and suitability provisions).
- An IFM who provided inappropriate monetary and non-monetary incentives to dealing representatives in order to promote its proprietary mutual funds, breaching section 2.1 *Restrictions on Payments or Provision of Benefits* of National Instrument 81-105 *Mutual Fund sales practices*.
- A PM and IFM who made unsuitable investments and failed to properly manage redemptions for its proprietary fund, breaching section 14 *Fair dealing* of the *Securities Rules* as well as section 125 *Standard of care* of the *Securities Act*.
- An EMD, its CCO and a DR sponsored by the dealer for not maintaining adequate books and records to demonstrate compliance with their KYC and suitability obligations.

There were other securities breaches in most of the above settlements, and each firm paid a monetary sanction. For most of these settlements, they included a registration ban on the firm's CCO and/or UDP. In 2023, the BCSC also settled with an AR who failed to maintain current and accurate KYC information for clients, as well as failed to exercise the duty of an AR to ensure that investments made were suitable for clients. In addition to paying a monetary sanction, this individual has been prohibited from becoming a registrant for at least eight years.

Settlements are a public outcome and are available at the BCSC's website.

Administrative Penalty Imposed by Notice (APIN)

Under section 162.01 of the *Securities Act*, the Executive Director has the power to impose monetary penalties for contraventions of the regulations (which include national and multilateral instruments) or prior decisions. The maximum penalty for each contravention is $100,000 for individuals, and $500,000 for non-individuals.

In 2023, we completed the first APIN when the Executive Director imposed a monetary penalty on a registered firm that failed to maintain the required level of insurance and failed to have adequate compliance policies and procedures related to insurance. For more information about the Executive Director's APIN power, see *BCN2023/03 – Administrative Penalties Imposed by Notice Section 162.01 of the Securities Act, RSBC 1996, c. 418*.

Complaints

The BCSC Contact Centre receives complaints about registered firms and registered individuals, which are then passed on to the compliance teams for review. We review every complaint and assess its merits. We follow a process to analyze the information submitted by the complainant and with the complainant's consent, we will also reach out to the registrant to inform them of the complaint and hear the registrant's side of the complaint. BCSC staff's review of complaints is separate and independent of the Ombudsman for Banking Services and Investments' (OBSI) complaint process. The complainant may submit their complaint to both the BCSC and the OBSI. Some past complaints that BCSC staff received resulted in compliance action or referral to our enforcement division.

Changes in the regulatory landscape in 2023

T+1 settlement

In 2023, amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement* were finalized to move Canada's settlement cycle to T+1 on May 27, 2024. Registered firms will need to ensure that trade matching and trade settlement procedures have been revised accordingly due to this change. PMs and IFMs will also need to consider how this change affects portfolio/fund liquidity, as well as timing for meeting redemption and withdrawal requests.

Total Cost Reporting (TCR)

We remind registrants that TCR amendments will take effect on January 1, 2026, and affected registered firms will have to deliver the first annual reports that incorporate the TCR amendments for the year ending December 31, 2026.

Examination focus and approach 2024

During the year ahead, we will continue to work on phase two of the CSA CFR sweep focusing on KYC, KYP, and suitability. We will also continue to select firms for review based on significant changes to business, revenue, or size.

Connecting with the BCSC

We remind you to subscribe to the *Weekly Report*, so that you can get early information about legislative changes on the horizon.

BCSC compliance staff hold Registrant Outreach sessions. We welcome suggestions from registrants on topics of interest. Please submit topic ideas to your firm's RM or send them to examiners@bcsc.bc.ca.

If you have questions or concerns, please contact your relationship manager, the Compliance Managers, or the Director.

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