



British Columbia
Securities Commission

Registrant Outreach Workshop

Tuesday, November 23, 2021

1:30 – 3:00 p.m.

Webex virtual room

Welcome to Registrant Outreach



- **Mark Wang**, Director,
Capital Markets Regulation

Client focused reforms (CFRs) – hot topics and application

- **Kathryn Anthistle**, Senior Legal Counsel, CMR Legal Services
- **Crystal He**, Senior Compliance Analyst, Dealer Compliance
- **Edwin Leong**, Lead Compliance Analyst, Adviser/IFM Compliance

Client Focused Reforms - Overview

- **Kathryn Anthistle**, Senior Legal Counsel, CMR Legal Services
- CFR amendments to NI 31-103 - phased implementation
- Final implementation date of CFRs is December 31 2021
- Applicable CFR amendments and CSA CFR FAQ can be found on the BCSC website for your reference
- A final updated CSA FAQ is expected in the next few months

Current link to CSA FAQs: <https://www.bcsc.bc.ca/industry/registrant-regulation/compliance-toolkit/client-focused-reforms-frequently-asked-questions>

POLL QUESTION #1

The background of the slide features a complex, abstract pattern of overlapping triangles and polygons. The colors used include various shades of light blue, teal, lime green, yellow, and orange, creating a vibrant and modern aesthetic. The shapes are layered, giving a sense of depth and movement.

Poll question

- Which of the following core components of the CFR amendments represent the most significant change or challenge for your firm (choose up to three):
 - KYP
 - KYC
 - Suitability
 - Conflict of interest
 - Referral arrangements
 - Relationship disclosure information
 - Misleading communications
 - Enhanced controls and documentation
 - Training requirements

Client Focused Reforms - Overview

- The best interests of the client come first in the client registrant relationship
- This best interest standard will improve alignment of interests of registrants with the interests of their clients, improve client outcomes and clarify the nature and terms of client relationships with registrants
- Registrants will apply CFR requirements and principles within their specific business model, using their professional judgement

Client Focused Reforms - Overview

- Let's highlight some of the core components of the CFR amendments ...

CFRs – Key Themes

- **Crystal He**, Senior Compliance Analyst,
Dealer Compliance
- **Edwin Leong**, Lead Compliance Analyst,
Adviser/IFM Compliance

POLL QUESTION #2

The background of the slide is a complex, abstract geometric pattern. It consists of numerous overlapping triangles of various sizes and orientations. The color palette is diverse, featuring shades of light blue, teal, lime green, yellow, orange, and grey. The triangles are layered, creating a sense of depth and movement. The overall effect is a vibrant, modern, and somewhat chaotic visual texture that frames the central text.

Poll Question

- What is your firm's current KYC update timing?
 - Annually
 - Every 2 years
 - Longer than 2 years

KYC and Suitability

Section 13.2 *Know your client*

- 13.2(2)(c) sets out new information requirements for EMDs – most PMs already collect this information
- 13.2(4.1) review KYC every 12 months or every 36 months

Firms will need to document their review and analysis of KYC information – brief notes may not be acceptable

Firms cannot assess suitability without having current KYC information

KYC and Suitability

Risk profile – Section 13.2(2)(c)

- Includes risk tolerance and risk capacity
- Should reflect the lower of:
 - a) the client's willingness to accept risk and
 - b) the client's ability to endure potential financial loss

KYC and Suitability

Suitability determination – Section 13.3(1)

- Enhanced requirement - the action puts the client's interest first
- Some considerations
 - the impact of cost on the client's return on investment
 - a reasonable range of alternatives available through the registered firm

POLL QUESTION #3

The background of the slide is a complex, abstract geometric pattern. It consists of numerous overlapping triangles of various sizes and orientations. The color palette is diverse, featuring shades of light blue, teal, lime green, pale yellow, light orange, and muted grey. The triangles are layered in a way that creates a sense of depth and movement, with some shapes appearing to recede into the background while others come forward. The overall effect is a vibrant, modern, and somewhat chaotic visual texture.

Poll Question

- When did you start providing training to your representatives with respect to the new CFR requirements that come into effect on December 31, 2021?
 - a) More than 6 months ago
 - b) Within the last 6 months
 - c) Haven't started yet

Section 13.2.1 *Know your product*

- KYP obligation on both the firm and the registered individual
- Document the firm's investment decision making for approving securities/products – this is not a new expectation for portfolio managers

Conflicts of Interest

Section 13.4 *Conflicts of interest*

- A registered firm must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonable foreseeable between the firm and the client, and between each individual acting on the firm's behalf and the client.
- A registered firm must address all material conflicts of interest between a client and itself, including each individual acting on its behalf, in the best interest of the client.
- A registered firm must avoid any material conflict of interest between a client and the firm, including each individual acting on its behalf, if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.

Conflicts of Interest

- The Firm's Duty (section 13.4)
 - Identify
 - Address in client's best interest
 - Disclose
- The Rep's Duty (section 13.4.1)
 - Identify
 - Promptly report conflict to the firm
 - Address in client's best interest

Conflicts of Interest

- Some considerations
 - Policies and procedures
 - Guidance in the CP for suggested practices

Titles

Section 13.18 *Misleading communications*

- Prohibition on use of Vice President and Director titles by client-facing registered individuals unless the person is appointed to that corporate office
- Clients include both retail and permitted clients
- Exemption application can be submitted if the registered individual only interacts with non-individual permitted clients



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Break 2:20 pm – 2:30 pm

We will return in 10 minutes.

CFRs and Q & A

- **Kathryn Anthistle**, Senior Legal Counsel, CMR Legal Services
- **Crystal He**, Senior Compliance Analyst,
Dealer Compliance
- **Edwin Leong**, Lead Compliance Analyst,
Adviser/IFM Compliance

Your CFR questions

A registrant must review the information collected (KYC) for managed accounts, no less frequently than once every 12 months.

Does review mean update?

Does that mean the registrant must reach out to the client to update the KYC information in order to review?

Your CFR questions

How is a “product” defined for model portfolios and KYP?

Is the model portfolio the product or is the model portfolio made up of products?



Your CFR questions

Regarding conflicts of interest, particularly referral arrangements: CSA FAQ #28 states that “if a client pays more for the same, or substantially similar, products or services as a result of a referral arrangement, they will not consider the inherent conflict of interest to have been addressed in the best interest of the client.”

For many referred clients, their planners provide services that the PM does not.

Does FAQ #28 also apply in cases where, as a result of referral fees paid, the PM actually receives less than it would from a direct client?

Your CFR questions

Our firm offers only proprietary pools and portfolios; that is, ARs may only invest clients in one or more of the firm's model portfolios. Clients are not charged management fees on any funds invested in proprietary pools.

In these cases, to what extent are registered individuals required to understand “initial and ongoing costs and the impact of those costs”?

Your CFR questions

We have clients who are concerned that asking clients questions about risk capacity may scare them off a long-term view and induce them to take a short-term view.

Most portfolio managers we deal with take great pains to explain to clients that short-term volatility is something they must be prepared to ride out and allow their advisors to do what they do best, and indeed to work in their clients' best interests. However, asking about a client's ability to withstand loss, whether in the short term or long term, may cause the client to shift focus from the long-term view.

Does the BCSC have any suggestions about how this question can be approached without causing unnecessary anxiety to clients that the PM may not be doing the best job they can?

Your CFR questions


FAQ 33 appears to say that a registered individual cannot disclose to a client an officer position that the registered individual holds with another corporation, unless the individual also holds the position with their sponsoring firm.

That is, it appears to say that if John Doe is registered as a dealing representative with XYZ Securities Inc., a registered dealer, and is also president (and sole owner and director) of John Doe Financial Inc., a licensed insurance entity through which John conducts his insurance business, he can't tell clients that he is the president of John Doe Financial Inc.

Is it correct that he can't say he is president of John Doe Financial Inc. even though it is a true statement?

Your CFR questions

Can you provide some examples of what you would consider significant changes, and particularly those that may require a new suitability determination and possibly a recommendation to divest?



Your CFR questions

- I assume a change in the product's risk rating would be considered a significant change and if that occurred with an exempt product, would you expect the EMD to conduct a new suitability determination?
- And if the product is now not aligned with the risk profile of the investor, is the EMD expected to reach out to the investor to let them know the product is no longer suitable and possibly to sell the product (if liquidity provisions provided that option)?

Your CFR questions

Is it expected that an EMD offering a mortgage investment entity (MIE) consider their client's investments held in any (or similar) exempt products at other dealers and/or privately held mortgages when calculating concentration?

Your CFR questions

Sole EMD with the following information:

- Captive dealer exclusively offers proprietary products (MICs and syndicated mortgages)
- The firm determined it has no on-going relationship with clients and has no client accounts

Your CFR questions

- **CFR Part 1 from June 30, 2021 – Conflicts**
 - Is it mandatory that conflicts of interest disclosure be a separate document, or can it be part of RDI?

Your CFR questions

- **TCP (Trusted Contact Person)**
 - When collecting TCP information, can it just be added as a new section on the KYC and we only collect one signature on the KYC? Or does the TCP need to be a stand alone document with client's signature?
 - Can a spouse be a TCP?

Your CFR questions

- **KYP**

- As the EMD conducts ongoing monitoring of securities on its product shelf for significant changes, is there a requirement to notify clients of material changes if the EMD doesn't hold client accounts and does not have access to a current list of investors? Our EMD is not involved in redemption or retractions by investors and does not have access to the shareholder registry as time goes on.

Your CFR questions

- **KYC**

- Is a “risk questionnaire mandatory” to assess the reasonableness of a client’s stated risk profile? Or can the EMD simply ask a couple of questions on the KYC to assess a client’s risk tolerance and risk capacity before asking them to rate their risk profile as Low/Med/High?

Your CFR questions

- **Suitability Reassessment**

- What are the triggering events for suitability reassessment for a captive EMD with no client accounts and non ongoing client-registrant relationship?

Questions



Type into the chat to ask a question.



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Closing remarks



- **Mark Wang,**
Director, Capital Markets Regulation

How to reach us

- We remind you to subscribe to the Weekly Report on the BCSC website, so that you can get early information about legislative changes on the horizon.
- If you have questions or concerns, please contact your relationship manager, the Compliance Managers, or the Director

Key contacts

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