



British Columbia
Securities Commission

Education outreach

Registration primer for Finders
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Introduction

- **Purpose of today's presentation**
- **Organization of this presentation**
 - discuss securities law
 - the EMD firm registration category
 - individual registration categories
 - making a registration application
 - registrant obligations and compliance expectations
- **Questions after the presentation only**

Background

- **Registration required if trades in securities result in the business of trading**
- **Registration exemptions in BCI 32-513 not available after April 30, 2019**
- **Registration required under section 34 of the *Securities Act***

NI 31-103 – an introduction

- **Registration rules are in National Instrument 31-103**
- **Principles-based regulation with some prescriptive requirements**
- **Securities legislation provides investor protection**
- **Emphasis on compliance systems that offer protections for investors**

Firm registration categories - 1

- **Exempt Market Dealer (EMD)**
 - acts as a dealer in distributions by an issuer
 - distributions made under a prospectus exemption
 - act as an underwriter to distribute securities under a prospectus exemption
- **Restricted dealer (RD) may operate under specific conditions**

Individual registrations - 1

- **Ultimate Designated Person (UDP) has responsibility to**

supervise the activities of the firm that are directed towards ensuring compliance with securities legislation

promote compliance with securities legislation

- **Proficiencies**
 - **no educational requirements, usually a CEO or senior decision-maker**

Individual registrations - 2

- **Chief Compliance Officer (CCO) has responsibility to**

establish and maintain policies and procedures for assessing compliance by the firm, and its individuals

monitor and assess compliance by the firm, and individuals

report to the UDP as soon as possible if the CCO becomes aware of any circumstances indicating that the firm, or any individual acting on its behalf, may be in non-compliance or a risk to Capital Markets or clients

- **CCO proficiencies include education and experience in the last 36 months**

Individual registrations - 3

- **Dealing Representative (DR)**

may act as a dealer in respect of a security that the individual's sponsoring firm is permitted to trade

acts for the firm to solicit investors to trade in securities distributed under an exemption from the prospectus requirement

- **Proficiencies include education or a blend of education and experience**

Getting registered

- **Substantially complete registration application to be filed by April 30, 2019**
- **One year transitional exemption to register**
- **While registration staff consider the firm application and the individuals, the firm can continue its business relying on BCI 32-513 until registered**

Applying for registration - 1

- **Firms file the required application form, Form 33-109F6**
- **Review the firm registration guidance on our website**
- **Individuals file the individual application form, Form 33-109F4, through the National Registration Database (NRD)**

Applying for registration - 2

- **Firm applications must include with Form 33-109F6 their**
 - **business plan**
 - **policies and procedures manual that describes and manages the risks associated with their business**
- **Our website provides guidance as to what we look for**

Applying for registration - 3

- **Individual applications under Form 33-109 F4 contain information including:**
 - name, date of birth, current and historical addresses
 - employment history, educational qualifications and work experience
 - disclosure of criminal convictions, civil judgments and administrative penalties
- **Misstatements an offense under the Act**

Application considerations

- **Demonstrate the proficiency of individuals acting for the firm**
- **Demonstrate consideration about compliance and have fundamental compliance, supervisory, and risk management systems in place**
- **Demonstrate meeting the capital, insurance and financial statement requirements**

Overview of registrant obligations

- **Develop and maintain internal controls and a compliance system**
- **Keep written policies and procedures**
- **Maintain required records**
- **Make periodic financial filings**
- **Know your client – KYC**
- **Know your product – KYP**
- **Perform suitability assessments before a trade**

Internal controls - 1

Internal controls

- mitigate risk, protect firm and client assets
- assist in monitoring compliance and managing the risks such as:
 - safeguarding client and firm assets
 - accuracy of books and records
 - conflicts of interest
 - money laundering
 - business interruption
 - marketing and sales practices

Internal controls - 2

- **Compliance system**
 - a firm must have policies and procedures that establish a system of controls and supervision to:
 - provide assurance that the firm and its individuals comply with securities legislation
 - prudently manage the risks associated with the firm's business

Internal controls - 3

- **Maintain records that**
 - accurately record the firm's business activities, financial affairs and client transactions
 - demonstrate that the firm is compliant with applicable requirements under securities legislation
 - demonstrate the firm is compliant with the PPM and internal controls

Financial condition - 1

- **Report minimum excess working capital**
 - \$25,000, for a PM that is not also an EMD or an IFM
 - \$50,000, for an EMD that is not also an IFM
 - \$100,000, for an IFM
- Annually, or quarterly for IFMs, as calculated on Form 31-103F1 *Calculation of Excess Working Capital***

Financial condition - 2

- **Maintain bonding or insurance that**
 - **contains the clauses set out in Appendix A to NI 31-103**
 - **provides for a double aggregate limit or a full reinstatement of coverage**
 - **Provides the coverage required under section 12.3(2) to (5) of NI 31-103**

Financial condition - 3

- **Annual financial statements must**
 - be audited
 - delivered to the regulator no later than the **90th** day after the end of the fiscal year
 - meet IFRS reporting requirements
- Late annual financial statement filings attract a mandatory penalty of \$100 per day**

Dealing with clients - 1

- **KYC requirements**
 - take reasonable steps to identify clients
 - retain sufficient client information to understand the client's investment objectives, financial circumstances and risk tolerance
 - keep KYC information current (dependent on age and circumstances of the client)

Dealing with clients - 2

- **Suitability obligation**
 - ensure that before the firm buys or sells a security for a client, the purchase or sale is suitable for the client
 - know the product sufficiently to assess if its risks, features, and costs are suitable for the client
 - be able to demonstrate an appropriate process for making suitability determinations

Conflicts of interest

- **Identify and respond**
 - the firm must take reasonable steps to identify conflicts of interest that may arise between the firm, individuals acting for it, and a client
 - the firm must disclose conflicts of interest that a reasonable client would expect to know
 - the PPM should include procedures to identify conflicts and respond to them

Client disclosures

- **A firm must deliver to a client information that a reasonable investor would consider important about the client's relationship with the registrant**
- **Investors would need to know about any close relationship between the EMD and the issuer of the securities they are buying**

Trade confirmation

- **After trading for a client, a firm must deliver a trade confirmation that describes**
 - **the price, quantity and description of the securities purchased or sold**
 - **the amount of transaction charges, deferred sales charges or any other charges and the total amount of charges**
 - **details of the parties and the date of the transaction**

Compliance failures

- **Our approach to compliance failures:**
 - work with you to fix them
 - if not fixed, compliance action
 - in severe cases, enforcement action
- **Enforcement action includes:**
 - registration terms and conditions
 - financial penalties
 - registration termination

Questions



Links and references - 1

1. National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and its companion policy
<https://www.bcsc.bc.ca/31-103> [NI] 06122018/
2. 31-103F1 *Calculation of Excess Working Capital*
https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=31%20103
3. CSA Staff Notice 31-343 *Conflicts of Interest in Distributing Securities of Related or Connected Issuers*
<https://www.bcsc.bc.ca/31-343> [CSA Staff Notice] 11192015/
4. National Instrument 31-102 *National Registration Database and its companion policy*
https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/31-102_National_Registration_Database_NI/
5. National Instrument 33-109 *Registration Information and its companion policy*
<https://www.bcsc.bc.ca/33-109> [NI] 06122018/
6. CSA Staff Notice 33-315 *Suitability Obligation and Know Your Product*
https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/33-315_Suitability_Obligation_and_Know_Your_Product_CSA_Staff_Note/
7. CSA Staff Notice 31-336 *Guidance for Portfolio Managers, Exempt Market Dealers and Other Registrants on the Know-Your-Client, Know-Your-Product and Suitability Obligations*
https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=31%20336

Links and references - 2

8. CSA Staff Notice 31-338 *Guidance on Dispute Resolution Services Client Disclosure for Registered Dealers and Advisers that are not members of a Self-Regulatory Organization*
https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=31%20338
9. CSA Staff Notice 31-334 *CSA Review of Relationship Disclosure Practices*
https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=31%20334
10. CSA Staff Notice 31-350 *Guidance on Small Firms Compliance and Regulatory Obligations*
https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/PDF/31-350_CSA_Staff_Note_May_18_2017/
11. National Instrument 45-106 *Prospectus Exemptions*
https://www.bcsc.bc.ca/Securities_Law/Policies/Policy4/Group/?group=45%20106
12. CSA Staff Notice 45-308 *Guidance for Preparing and Filing Reports of Exempt Distribution under National Instrument 45-106 Prospectus Exemptions*
https://www.bcsc.bc.ca/Securities_Law/Policies/Policy4/Group/?group=45%20308
13. Multilateral CSA Staff Notice 45-309 *Guidance for Preparing and Filing an Offering Memorandum under National Instrument 45-106*
https://www.bcsc.bc.ca/Securities_Law/Policies/Policy4/Group/?group=45%20309
14. Registration Information, Compliance Toolkit and Conducting Background Search on BCSC Public Website
https://www.bcsc.bc.ca/For_Registrants/