



British Columbia Securities Commission

Report Card on Scholarship Plan Dealers

Capital Markets Regulation Division

November 24, 2004

To the Scholarship Plan Dealers

Background

The Capital Markets Regulation Division (CMR staff) of the British Columbia Securities Commission has prepared this report to summarize key issues identified by staff during field reviews of scholarship plan dealers (SPDs). CMR staff conducted detailed examinations on five of the seven SPD firms registered in BC. These reviews were conducted between February 2003 and March 2004. All of these SPDs have head offices located in other jurisdictions.

This report outlines common deficiencies and findings. Publication of the findings is part of the Commission's efforts to be transparent to industry about areas of concern.

Results

Results of the current examinations showed a lack of commitment to proper sales practices by most SPD firms. We are disappointed that some SPD firms have failed to put in place an overall culture of compliance. Some firms had compliance programs in place but failed to either educate representatives or enforce the existing program. CMR staff have met with the firms and will continue to monitor the progress of each dealer in addressing deficiencies. We anticipate another round of follow-up examinations in 2005. Appropriate actions will be taken if repeat deficiencies are encountered.

Major Findings

CMR staff found a higher rate of compliance deficiencies and complaints in this sector when compared to the reviews of other sectors. In some cases, regional compliance officers were doing very little oversight or compliance activities. We also found that many compliance deficiencies identified in our previous round of examinations continue to occur. While some firms made commitments to improve internal controls, supervision, training and sales practices, these repeat deficiencies show they did not always follow through.

The distribution structures and procedures of some dealers have also caused more complaints. Evidence suggests that an increase in sales practice is associated with distributing product through "independent contractor arrangements".

Adequate supervision is critical for SPDs who are entirely responsible for the conduct of their representatives. In general client assets are not at risk with these firms, as the issues mainly relate to business structures and sales practices. Some representatives used deficient marketing or confused clients about the nature of their company.

Common SPD Deficiencies

We have highlighted the eight most common deficiencies in the chart below. CMR staff found 100% of the firms (5 of 5) did not maintain adequate books and records. Client statements were found incomplete or were not sent out to clients. All were found to have ineffective compliance programs in place. We observed that firms with “ineffective compliance programs” have high correlations to other deficiencies.

The eight most common deficiencies are:

1	Record-keeping and documentation	100%
2	Client statements	100%
3	Ineffective compliance program	100%
4	Ineffective compliance officer function (supervision)	100%
5	Suitability and know-your-client (KYC) issues	100%
6	Business cards, titles, website (holding out issues)	100%
7	Incomplete policy and procedures manual	60%
8	Lack of on-site review of branches	60%

Compliance Guidelines

We recommend that Dealers in SPD firms do the following to improve their compliance procedures:

- Designate a compliance officer and define the officer’s authority and responsibilities in detail.
- Develop and maintain an effective, firm-wide compliance system.
- Conduct regular on-site reviews and interviews of regional managers.
- Ensure that compliance procedures are enforced and establish internal disciplinary procedures to ensure that there are consequences for poor conduct.
- Review and update the written compliance procedures on a regular basis; minimum is annually.
- Ensure that all employees and agents receive a copy of the procedures manual and sign-off on having read and understood it.

We recommend that Compliance Officers in SPD firms do the following to improve their compliance procedures:

- Keep updated on industry changes and requirements.
- Ensure that effective compliance policies are developed and enforced.
- Provide adequate training and workshops for representatives on ethical topics.
- Take responsibility for ensuring that representatives are of good character and possess qualifications necessary to represent your firm and sell scholarship plan products.
- Review and supervise the extent and nature of any referral or networking arrangements representatives engage in.
- Conduct many managerial and representative interviews each year to ensure those individuals understand the firm's compliance policies.
- Require all representatives to report any direct or indirect conflicts of interest to the dealer to ensure that they are acting in the best interest of clients.

We recommend for Salespersons in SPD firms do the following to improve their compliance procedures:

- Make reasonable efforts to ensure that any proposed transaction is suitable and affordable to all clients.
- Do not engage in misleading or deceptive advertising.
- In dealings with clients, ensure representatives provide all relevant point-of-sale disclosures to ensure transparency of fees and any conditions.
- Ensure that clients are provided on a timely basis with records and relevant statements.

These are suggestions and are not exhaustive. There may be others that may be equally or more effective for your firm.

Next Step

Ultimately it is the firm's responsibility to ensure compliance. If the same problems are encountered during our next round of examinations, appropriate actions will be taken.

Contact information

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