

Welcome

Registrant Outreach & Education Seminar

Today

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|---------------|---|
| 09:10 – 09:35 | Relevant investment management experience for Advising Representatives <ul style="list-style-type: none">• Salman Tajammul, Team Lead Registration |
| 09:35 – 09:50 | Guidance on Client Relationship Manager Advising Representatives <ul style="list-style-type: none">• Raymond Crasto, Senior Registration Analyst |
| 09:50 – 10:05 | Business continuity and succession planning <ul style="list-style-type: none">• Steve Quinn, Senior Regulatory Analyst |
| 10:05 – 10:20 | Break |
| 10:20 – 10:50 | An overview of recent findings <ul style="list-style-type: none">• Ali Zaheer, Senior Regulatory Analyst• James Steele, Regulatory Analyst |
| 10:50 – 11:20 | Blanket Order 45-539 – Raising capital for small business in Alberta <ul style="list-style-type: none">• Tonya Fleming, Manager Private Markets & Innovation |

Registrant Outreach



Let's get started!

Relevant Investment Management Experience for Advising Representatives

Salman Tajammul, Team Lead, Registration



Agenda

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|---|--|
| 1 | Relevant investment management experience (RIME) |
| 2 | Advising Representative (AR) RIME |
| 3 | Associate Advising Representative (AAR) RIME |
| 4 | Common questions |
| 5 | Alberta examples |

RIME requirements

RIME

- Researching and analyzing securities for inclusion in fund or client portfolios; **or**
- Portfolio management on a discretionary basis.

Essential elements

- RIME must be securities-related.
- RIME must be customized to a fund/client portfolio.
- RIME cannot be general in scope.

AR registration

Section 3.11 of NI 31-103

- Chartered Financial Analyst (CFA) designation + 12 months of RIME (gained within 36 months before applying to register)
- Chartered Investment Manager (CIM) designation + 48 months of RIME (12 months of which was gained within 36 months before applying to register)

AR RIME – Researching & analyzing securities

Researching and analyzing specific securities for inclusion in a fund or client portfolio

Examples:

- Fundamental analysis (calculating a security's intrinsic value).
- Technical analysis (forecasting direction of a security's price).
- Analyzing correlation and risk of securities in portfolios.

AR RIME – Discretionary portfolio management

For AARs and other professionals with investment management experience:

Client portfolios

- Drafting Investment Policy Statements (IPS) and determining asset allocation.
- Recommending securities.
- Rebalancing portfolios.
- Creating and rebalancing model portfolios.

Funds

- Drafting fund mandate and determining asset allocation.
- Determining suitability of investments for inclusion in fund(s).

AAR registration

Section 3.12 of NI 31-103

- CIM or passed Level 1 of the CFA program
- 24 months of RIME

AAR RIME

AAR RIME is not as prescriptive as for the AR category

- General research/analysis or investment management experience may be sufficient (case by case assessment).

Examples

- Client relationship management experience related to research, portfolio analysis or security recommendations.
- Corporate finance experience.
- Registered representatives selecting and recommending securities.

Common RIME questions

Can RIME for ARs and AARs be acquired outside of traditional PM activities?

- Yes, determining investment strategy and asset allocation for funds, analysis of underlying securities in a portfolio or fund.

Does recommending model portfolios satisfy AR RIME?

- May need to be supplemented by other experience – e.g. drafting IPS, determining asset allocation.
- AAR registration more suitable.

Common RIME questions

Can an individual qualify for AR registration (without prior AAR registration)?

- Outside of research, typically AAR RIME required to qualify as AR.

What type of securities meet RIME requirements for ARs and AARs?

- Publicly traded equities and fixed income.
- ETFs, mutual funds, derivatives, exempt market securities and non-publicly traded funds.

Is foreign experience considered for RIME?

- Legislation/guidance does not distinguish foreign vs. Canadian experience.

Common RIME questions

Are reference materials (e.g. reference letters) required from former employers to substantiate RIME?

- No, typically only a description of RIME is required.
- Reference materials from former employers is supplementary.

How long does it take to review a new registration application?

- Around 25 calendar days.
- Completeness of information provided is a key factor (specific descriptions and example(s) required).

RIME examples

AR approved

- Individual with research and analysis experience, and very limited discretionary PM experience.

AR approved

- Individual with CRM-AR experience and other experience geared toward assisting ARs.

RIME examples

AAR approved

- Individual with technical analysis experience, but experience not gained at a PM firm.

AAR not approved

- Individual with sales/business development experience.

Questions?

Thank you

Guidance for Client Relationship Manager – Advising Representatives

Registration

Raymond Crasto – Senior Registration Analyst



Agenda

| | |
|---|---|
| 1 | Proficiency requirements |
| 2 | Client Relationship Manager Advising Representative (CRM AR) activities |
| 3 | Terms and conditions |
| 4 | Common questions |

Proficiency requirements

Individuals applying as CRM-ARs are required to satisfy the AR education requirements and meet specific proficiency requirements:

- The Chartered Financial Analyst (CFA) or Chartered Investment Manager (CIM) designations; and
- Demonstrate sufficient CRM-related relevant investment management experience (RIME), including:
 - Experience as a registrant with client-facing investment management activities, such as collecting know-your-client, recommending securities, and rebalancing portfolios.
 - Experience assisting a registered Advising Representative (AR) in investment management activities and performing research.

CRM AR activities

Client facing activities:

- Formulate and draft investment policy statements;
- Design the asset mix for a client portfolio;
- Recommend model portfolios and pooled funds; and
- Execute trades to implement or rebalance model portfolio allocations.

CRM AR activities

Internal activities (subject to AR pre-approval/supervision):

- Analyze and recommend specific securities for a client portfolio; and
- Work on the design of a model portfolio or pooled fund and recommend this to an AR.

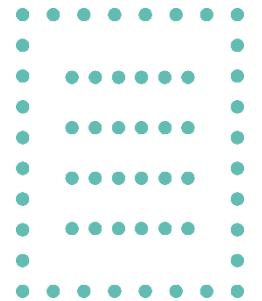
Terms and conditions

Category restriction terms and conditions for CRM-ARs include these five key sections:

- No advice related to selection of individual securities (without pre-approval from an AR);
- Activities requiring approval of an AR;
- CRM-AR review and approval of advice provided by an Associate AR;
- Written disclosure of advice restrictions to clients; and
- No misleading use of titles.

Terms and conditions

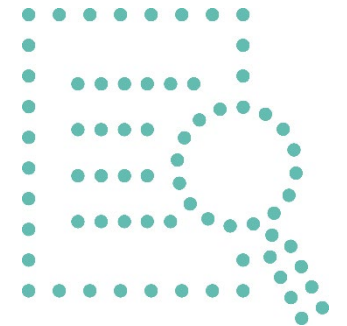
- CRM ARs must clearly refer to themselves as a "client relationship manager" in all communications with clients and marketing materials.
- A firm cannot use the same titles for ARs and CRM ARs:
 - “Wealth Advisor – Client Relationship Manager” is acceptable.
 - “Investment Counsellor” is not an appropriate title.



Common questions

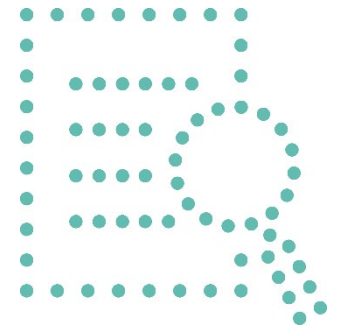
- Can CRM-AR registration lead to future unrestricted AR registration?
 - Possibly, depends on the experience gained by the individual as a CRM-AR.

- The terms and conditions applicable state that CRM-ARs need to inform their clients about their limited registration as ARs. Can this be done verbally?
 - No, written confirmation should be provided.



Common questions

- Can a firm request changes to the CRM-AR terms and conditions?
 - No, these are standard terms and conditions across the CSA.
 - For particular circumstances, exemptive relief application would be needed for ASC consideration.



Questions?

Contact us



Raymond Crasto



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Thank you

Small firm business continuity and succession planning

Steve Quinn

Senior Regulatory Analyst, Registrant Oversight

Business continuity and succession planning

- Procedures to mitigate, respond to and recover from business interruptions.
- Procedures to protect, backup and recover the firm’s systems and books and records.
- Temporary or permanent relocation of the firm’s offices.
- Details to manage operations in the event of the death, incapacitation, or prolonged temporary absence of registered individuals.

Regulatory requirements and guidance

- Section 11.1 of National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and Companion Policy
- CSA Staff Notice 31-350 – *Guidance on Small Firms Compliance and Regulatory Obligations*
 - Outlines the business continuity plan executor (BCP executor) concept and provides guidance to consider when developing a business continuity plan (BCP) and working with an external BCP executor.
- 2024 ASC Registration group email blast to smaller firms on BCP

BCP – Exempt Market Dealers (EMDs)

- Without a Dealing Representative (DR), deals will naturally stop.
- Temporary absence – deals can resume upon the DR’s return
- Permanent absence – BCP executor may communicate with clients as follows:
 - Transactional relationship: remind clients of issuer contact information.
 - Ongoing relationship: advise clients that the firm is winding down and that the issuer may provide statements or related information going forward.
- BCP executor must notify the ASC to initiate the surrender process or to sell the firm.

BCP – Portfolio Managers (PMs)

- If no Advising Representative (AR) is available over a long term, the BCP executor should instruct clients to engage another PM to manage their portfolios.
- The long-term absence of an AR can be a significant issue for clients who:
 - Need to generate income from their portfolios to meet their cash flow needs.
 - Experience significant changes in their circumstances requiring portfolio changes.
 - Are invested through periods of market volatility.
- BCP executor must notify the ASC to initiate the surrender process or to promptly sell the firm to another qualified PM.

BCP – PM + Investment Fund Managers (IFMs)

- Absent an AR, client holdings in funds cannot be managed or liquidated without a registered PM managing the fund.
- Succession responsibilities may be left to individuals who are not qualified to be ARs.
- If the firm and fund have a surviving officer or director, a new PM and IFM can be promptly appointed to liquidate or continue managing the fund assets.
- An IFM may also outsource IFM activities, which may be helpful when a fund is being wound down.

BCP – PM + IFMs

- Without a BCP in place to promptly appoint a new PM/IFM or sell the firm, client assets in a fund are inaccessible.
- To protect client assets, regulatory action is a possible outcome – to pursue a court-appointed receiver that will ensure the appropriate wind down or continued management of the fund.

Recent ASC initiative

- Staff have contacted a number of Alberta PM firms to learn if there was interest in potentially discussing being appointed as a back-up or emergency PM.
- Staff shares contact information of firms willing to discuss these matters – firms in need of planning have the option to make contact.

Thank You



Steve Quinn



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An overview of recent findings from ASC compliance reviews

Ali Zaheer, Senior Regulatory Analyst

James Steele, Regulatory Analyst

Topics

- Know-your-client (KYC)
- Know-your-product (KYP)
- Suitability
- Policies and procedures
- Training
- Marketing

- Conflicts of interest
- Relationship disclosure information
- Client reporting
- Books and records
- Supervision of Associate Advising Representatives

Know-Your-Client

- Risk capacity and risk tolerance have not been consistently collected or determined.
- Financial circumstances deficiencies (i.e. not collecting a client’s liquidity needs).
- Prospectus exemption qualification criteria are not being confirmed.
- Algorithmic or behavioral KYC questionnaires.
- KYC update discussions not being properly documented.

Know-Your-Product

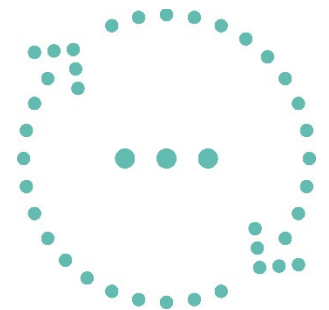
- No process to monitor for significant changes to products on shelf.
- No evidence of product approval.
- Inadequate documentation to demonstrate KYP assessment.
- No KYP conducted on transferred-in securities.

Suitability – CFR related

- The impact of the investment action on the client's account or portfolio (concentration and liquidity).
- Potential and actual costs.
- A reasonable range of alternative actions.
- Suitability not being reviewed after a material change has been identified.

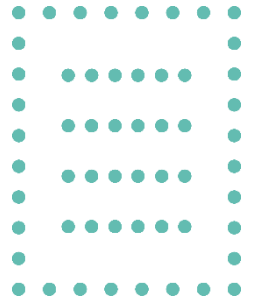
Suitability – General

- Lacking documentation of suitability determination.
- No assessment performed on client directed trades.
- No written evidence of permitted clients waiving KYC and suitability.



Policies and procedures

- KYC
- KYP
- Suitability



Training on KYC, KYP and suitability

- Maintaining evidence of attendance and completion.
- Maintaining records of training materials.
- Training materials should be specific and tailored to the firm.



Marketing

Misleading and inadequate content in marketing materials:

- Inadequate disclosure for performance data;
- No disclosure for source of third-party information;
- Lack of disclosure of the valuation risks for private securities;
- Inadequate disclosure of circumstances of institutional investors; and
- Inadequate use of disclaimers.

Inappropriate use of trade names.

Conflicts of interest

- Firms only providing disclosure and not addressing the material conflict of interest in the best interest of clients.
- Client consent as the only action taken for a material conflict of interest.
- Inadequate identification of material conflicts of interest related to fee arrangements.
- Disclosure provided to clients containing inaccurate or out-of-date information.

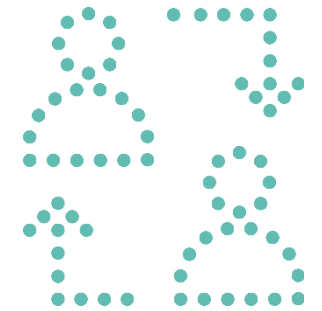
Relationship disclosure information

Clients not receiving disclosure of all required information, such as:

- Where and how client assets are held and related risks and benefits;
- Limits on products and services offered by the firm – i.e. proprietary shelves;
- Content and frequency of reporting;
- Dispute resolution services available to clients and related firm obligations; and
- Material conflicts of interest.

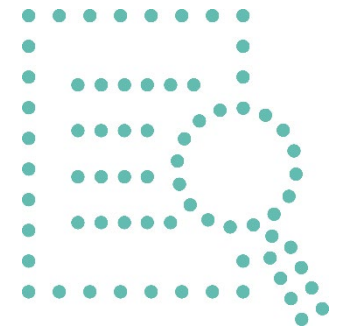
Client reporting

- Clients not provided with an applicable statement for each of their accounts.
- Clients not provided with applicable statements on a timely basis.



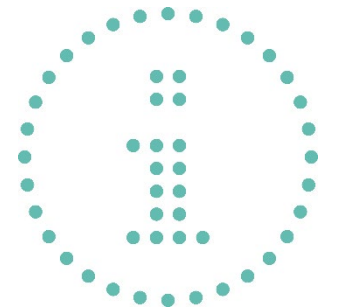
Books and records

- Historical records for client reporting not maintained during portfolio management system upgrading.



Supervision of Associate Advising Representatives

- Lack of advising representative supervision and approval of advice.
- Inadequate maintenance of records documenting approval of advice.



Questions?

Contact us



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Thank you

Small business - capital raising

Alberta Securities Commission

*Tonya Fleming, Private Markets & Innovation
Corporate Finance*

September 2024



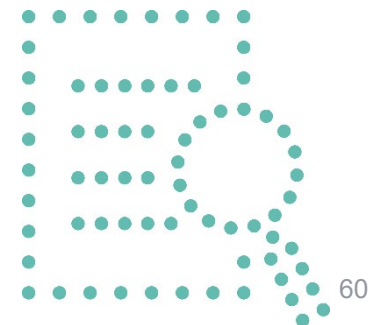
Securities law fundamentals for the business looking to raise capital

Prospectus requirement (s. 110 of the *Securities Act*)

- ✓ Investors must have timely, accurate information on which to base their investment decisions.
- ✓ In order to sell securities to an investor, an issuer needs to file a prospectus and get a receipt in order to trade in a security **or fit within a prospectus exemption.**
- ✓ A prospectus is a comprehensive disclosure document.
- ✓ Prospectus exemptions allow issuers to raise capital (sometimes with limitations) at much less cost, to certain investors, not the public generally.

Why prospectus exemptions?

- Starting point: Need a prospectus to distribute securities so investors can make an informed decision about whether to invest **or utilize a prospectus exemption.**
- Preparation of a prospectus is expensive and costs may be too high relative to the amount the business needs to raise.
- Prospectus exemptions provide an alternative, balancing investor protection and economic efficiency.
- There are many prospectus exemptions available; consider the needs of the business and the status of the investors. There is an obligation to ensure the specific criteria of the exemption are met is on the issuer (not the investor).
- A prospectus-exempt securities offering may be called an “exempt market distribution” or a “private placement.”



Rationale for prospectus exemptions

- Don't need a prospectus if:
 - ✓ They are rich enough to withstand the loss.
 - ✓ They have a relationship of trust with a principal of company.
 - ✓ “Prospectus-lite” disclosure is available to assist in making an investment decision.
 - ✓ Only a small amount of money is at risk.
- Prospectus exemptions are narrow and technical.
 - ✓ There isn't a codified exemption for every situation.
 - ✓ Another option is to apply for discretionary relief.
 - ASC Policy 12-601 *Applications to the ASC*
 - National Policy 11-203 *Process for Exemptive Relief in Multiple Jurisdictions*

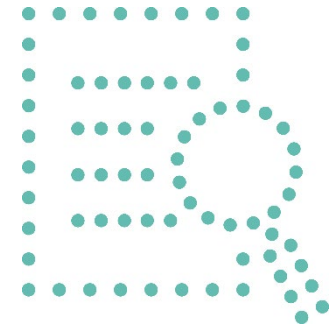
Where are the codified prospectus exemptions?

- Most exemptions are located in one rule:
 - ✓ National Instrument 45-106 *Prospectus Exemptions*
- Crowdfunding
 - ✓ National Instrument 45-110 *Start-up Crowdfunding Registration and Prospectus Exemptions*
- There are also local ASC rules:
 - ✓ ASC Blanket Order 45-538 *Self-Certified Investor Exemption (harmonized with Saskatchewan)*
 - ✓ ASC Blanket Order 45-539 *Small Business Financing Exemption (harmonized with Saskatchewan)*
 - ✓ ASC Rule 45-511 *Local Exemptions and Related Requirements (contains the Cooperative Exemption)*
 - ✓ ASC Rule 72-501 *Distributions to Purchasers Outside Alberta*

NI 45-106 prospectus exemptions

Commonly used NI 45-106 prospectus exemptions:

- ✓ Accredited investor (section 2.3)
- ✓ Private issuer (section 2.4)
- ✓ Family, friends and business associates (section 2.5)
- ✓ Offering memorandum (section 2.9)
- ✓ Minimum amount (section 2.10)
- ✓ Employee, executive, director or consultant (section 2.24)

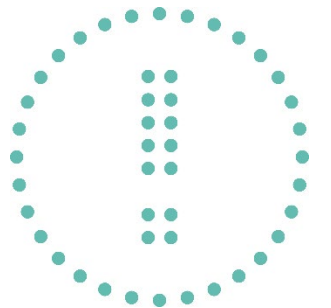


Offering memorandum exemption (section 2.9)

- Prescribed offering memorandum/disclosure required as well as audited financial statements.
 - Aggregate 12-month investment of:
 - ✓ \$10,000
 - ✓ \$30,000, if eligible investor
 - ✓ \$100,000, if eligible investor, with positive suitability advice
- Eligible investor:
- \$400K net assets alone or with spouse; or
 - Greater than \$75K pre-tax net income in last two years, or greater than \$125K pre-tax net income with spouse in the last two years.
 - Entity majority owned by or majority of trustees are eligible investors.
- Investors must complete risk acknowledgement; issuer must file the offering memorandum, financials, marketing materials and report of exempt distribution within 10 days of each distribution; annual filing requirements for financials.

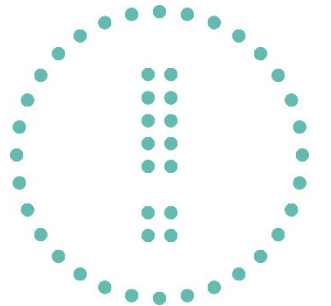
Tips and traps: Responsibility for compliance

- Obligation (and risk) is on the issuer (*seller*) to make sure the exemption is available.
- Guidance: The issuer has taken reasonable steps to verify that the investor is eligible to invest.
- Reasonable steps would include:
 - ✓ Understanding the terms and conditions of the exemption (i.e. being able to explain and apply them).
 - ✓ Establishing appropriate policies and procedures.
 - ✓ Verifying the purchaser meets the exemption criteria.
 - ✓ Keeping relevant and detailed documentation.



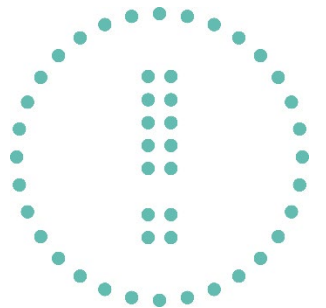
Tips and traps: Resale restrictions

- For nearly all exemptions, investors acquiring securities under exemptions obtain securities subject to resale restrictions.
- Resale restrictions typically continue for four months for security holders of **reporting issuers**.
- Resale restrictions continue **indefinitely** for security holders of non-reporting issuers (until issuer becomes a reporting issuer).
- Resale restrictions will require a prospectus or use of a prospectus exemption to sell the security.



Tips and traps: Continued

- Exemptions narrow and technical – read thoroughly before using them!
- Must comply with law in each jurisdiction where securities are being distributed.
 - ✓ Alberta-based issuers are generally always subject to Alberta securities law *plus* law of where purchasers are located. ASC Rule 72-501 provides a prospectus exemption for sales to non-Alberta purchasers if complying with laws in their jurisdiction.
 - ✓ Consider location of issuer and location of investor.
- Exemptions generally harmonized in National Instrument 45-106 *Prospectus Exemptions* but there are some differences between the provinces.
- Seek legal advice early – before you go off-side!



Blanket Order 45-539

Small Business Financing Exemption

Harmonized exemption with Saskatchewan
for use by private Alberta- and Saskatchewan-based
businesses issuing simple securities



Using this exemption, money may be raised from the “public”

- Like crowdfunding, principals of the business do not need to have a ‘relationship’ with purchasers.
- Unlike crowdfunding, there is no requirement to use a funding portal. The business can deal directly with purchasers.
- The business can use a registered dealer to assist them in raising funds using this (and other) exemptions. If a dealer is involved, investment limits are higher for those for whom this is a ‘suitable’ investment.
- In the future, the “private issuer” exemption, for a company with a small number of shareholders who has never raised money from the public, will be unavailable.

Blanket Order 45-539 *Small Business Financing*

Prescribed offering document (Form 45-539F1)

- A fillable form (in Microsoft Word format) is available on the ASC website at asc.ca
- No variation of the headings, numbering or information in the form is allowed.
- Be concise and use plain language.
- Provide to prospectus purchasers *prior* to the purchaser signing a subscription agreement.
- If forward-looking information is provided:
 - Identify it and add cautionary language identifying factors that could cause actual results to vary.
 - Identify assumptions on which the forward-looking information is based.
 - Include a statement saying the issuer believes it has a reasonable basis for making the forecasts or projections set out in the forward-looking information.
- The offering document must not contain a misrepresentation (i.e. an untrue statement of material fact or an omission to state an material fact).

Issuer qualification

- Head office must be located in Alberta or Saskatchewan.
- Majority of the directors and officers must be located in Canada.
- Issuer must not be a reporting issuer or an investment fund.

Limits

- Lifetime limit of \$5 million with this prospectus exemption.
- Annual limit of \$1.5 million (without specified financial statements) or \$5 million (with unaudited financial statements).
- Annual investor limit:
 - ✓ Without financial statements: \$2,500 or \$10,000 (with income requirement or deemed suitable by registered dealer)
 - ✓ With unaudited financial statements: \$5000 or \$20,000 (with income requirement or deemed suitable by registered dealer)

Financial statements

- No financial statements are required with the \$2,500/\$10,000 limit.
- Unaudited but reviewed financial statements are required with the \$5,000/\$20,000 limit.
- If financial statements are provided, issuer must agree to provide them for the following three years – to the Securities Commission and to the investors.

Risk acknowledgement (Form 45-539F2)

- Investors must complete a specified risk acknowledgement.
 - “This investment is risky. Don’t invest unless you can afford to lose all the money you pay for this investment.”

Cancellation rights

- Investors have two days to change their mind. Money must be returned.

Liability for misrepresentation

- If material information changes during the ‘marketing’ period (max. of 120 days), the offering document must be updated.
- Investors have a statutory right to sue for damages or rescission (unwind the transaction) if the document contains a misrepresentation. The business and the directors and officers may be sued. This right is available whether or not the purchaser relied on the misrepresentation. Limited defenses are available.

Filings

- Within 30 days after closing, file the offering document and the report of exempt distribution on SEDAR+.
- If applicable, also file the financial statements and the undertaking.

Need help navigating securities laws to raise capital?

Call the ASC and ask for a lawyer on the Private Markets & Innovation team or email us at:

innovation@asc.ca

Thank you