

Registrant Outreach and Education Seminar

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ALBERTA SECURITIES COMMISSION

Common Findings

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Agenda: common findings

- 1 Across all firms**
- 2 Portfolio managers and investment fund managers**
- 3 Exempt market dealers**



Common findings: policies and procedures manual

- Not reflective of actual operations or compliance structure
 - PPM reviewed regularly?
 - PPM updated as changes occur?
- Too general or too broad
 - Does it specify how you would meet your regulatory obligations?

Common findings: know-your-client information (KYC)

- Insufficient collection
 - KYC current and accurate?
 - KYC information collected makes sense and meaningful?
 - Prospectus exemption qualification verified?
- Common issues
 - Conflicting investment objectives and risk tolerance information
 - Broad ranges and categories for financial information
 - Corporate signing authority
 - Use of leverage
 - Politically exposed person status



Common findings: KYC information

- Use of inadequate KYC forms
 - Not capturing key KYC information
- Inadequate documentation
 - You know them, but did you document what you know?
- KYC signed after trade or execution of subscription agreement

Common findings: disclaimers and liability limitations

- Attempting to relieve firm from:
 - Obligation to deal fairly, honestly and in good faith with clients
 - Obligation to conduct suitability assessment
- What can you do?
 - Review agreements, marketing materials and disclosure
 - Seek legal advice

Common findings: marketing material disclosure

- Hypothetical performance figures
 - Methodology and underlying assumptions
 - Annualizing returns for periods shorter than a year
- Graphs and charts
 - Timeframe
 - Source of information
- Benchmarks
 - Explanation of comparability

PM/IFM findings: marketing materials

- Unsubstantiated or exaggerated statements
 - Quality of advice and expertise provided
 - Opinions or investment objectives stated as facts
 - Touting lack of conflicts of interest
- “Cherry-picked” and misleading performance returns
 - Past performance of PMs at previous firm
- Inadequate disclosure
 - Jurisdictions and category of registration
 - Performance and embedded fees

PM/IFM findings: advising representative duties

- Unregistered individuals performing registrable duties
- All trades and advice should be authorized by ARs
 - Not documenting basis for investment recommendations
- Ensure AARs are under the supervision of ARs
 - Policies and procedures for supervising AARs
 - Train staff on advising activities allowed
 - Document all advice pre-approved under ARs supervision

PM/IFM findings: client reporting

- No disclosure in client statements of:
 - Total value of purchases or sales
 - Party that holds or controls each security
 - No coverage under an investor protection fund
 - Security position cost information
- Inadequate investment performance reports
 - Annual change in the market value of the account
 - Money-weighted return for the last 3, 5 and 10-year period
 - Notes to explain the content of the report
- Inadequate review of client statements

PM/IFM findings: best execution and soft dollar standards

- Must make reasonable efforts to achieve best execution when acting for a client
- No analysis of how best execution is being achieved
 - PMs using brokers charging commissions noticeably higher than industry average
- PMs using soft dollars without disclosure
 - IIROC dealer fees — bundled services
- No analysis of how clients receive reasonable benefits from soft dollars



PM/IFM findings: business continuity planning and risk management

- Business continuity plan
 - Disaster recovery plan
 - Succession planning
 - Key person risk: CSA guidance for small firms
- Cybersecurity
 - Risk assessments
 - Due diligence when engaging third parties
 - Incident response plan
- Inadequate insurance coverage

PM/IFM findings: inadequate PPM

- Proxy voting
- Rebalancing of accounts
- Oversight of sub-advisors
 - Evaluation of investment recommendations and performance
- Error policies — materiality
- Trust and fund accounting
 - Outsourcing oversight
- Trade matching and settlement
 - DAP/RAP matching statistics

EMD findings: suitability assessment and review

- Inadequate documentation to demonstrate adequate suitability assessment
 - No consideration of concentration in exempt market securities or group of connected issuers
 - Mismatch between client information and product feature(s)
 - Inappropriate reliance on client-directed trade instructions
- Reliance on “permitted client” status without a waiver
- Inadequate review

EMD findings: know-your-product (KYP) initial assessment and ongoing monitoring

- Inadequate initial and ongoing KYP assessment
 - Product suitable for at least some clients?
 - Independent assessment of product viability?
 - Independently verified issuer material?
 - Projections, estimates and critical assumptions
 - Most recent financial disclosure
 - Marketing materials
 - Discrepancies reconciled?
 - Conflict of interest disclosure gaps?
 - Other issues identified and resolved?

EMD findings: marketing materials

- Inappropriate representations
 - Comparing volatility and risk of exempt market vs. public securities
 - Comparing institutional vs. retail investors
 - Presenting highly promotional claims
 - Guaranteeing or implying minimum redemption values
 - Holding out of registration by firm or DR
 - Implication of endorsement or product approval by regulator

EMD findings: marketing materials

- Inadequate oversight
 - Marketing materials
 - DRs marketing activities
 - OM marketing materials
- Inadequate disclosures
 - Testimonials



EMD findings: client reporting

- Trade confirmations and account statements
 - Still required for transactional relationship
- Trailer fees paid to EMD
 - Must provide ongoing client reporting

Thank You

