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# Supervision and training of ARs and DRs

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# Agenda

- Marketing/sales practices
- Branch/business location reviews
- Complaints
- AR supervision
- Training



# Establishing a supervisory and training system

- NI 31-103 requires a firm to:
  - establish a system of controls and supervision
  - maintain records to demonstrate compliance, supervision and training
  - ensure proficiency of DRs/ARs
- Section 3.4 – initial and ongoing proficiency requirements
- The CCO is responsible for implementing a supervisory and training system

# Inadequate supervision of marketing/sales practices - examples

- A DR's LinkedIn profile, which had not been reviewed, contained misleading claims
- A DR used foreign language marketing materials that were not consistent with the approved English language marketing materials
- A DR created brochures containing "OM marketing material" that the firm and the issuer had not reviewed and approved
- A CCO did not maintain evidence of review and approval of marketing materials distributed



# Inadequate supervision of marketing/sales practices - examples

- A DR held investment seminars about specific exempt market products without the firm's knowledge
- A referral agent used social media to recommend exempt market products to clients
- A DR advertised services and sourced clients through a corporation, which was not disclosed to the firm



# Marketing/sales practices supervision

- Review websites and social media
  - use service providers to monitor online activity
  - conduct periodic reviews
  - retain records of reviews
- Require DRs to use firm-approved marketing materials only
- Effectively supervise DRs, including those who speak multiple languages



# Marketing/sales practices supervision

- Conduct compliance calls to a sample of clients
- Review issuer materials
- Obtain written issuer approval for “OM marketing materials”
- Maintain records of the preparation, review and approval of marketing materials



# Marketing/sales practices supervision

- **Oversee all sales-related activities**
- **Outside business activities**
  - require DRs/ARs to periodically disclose or update OBAs
  - do not rely solely on self-disclosure by DRs/ARs
  - perform periodic internet searches
- **Referral arrangements**
  - evaluate how referral agents are marketing their services
  - enhance review of referred trades
  - educate referral agents



# Inadequate business location reviews - examples

- A firm failed to conduct any business location reviews of DRs
- DRs kept their own records, including client files and suitability notes – the firm had no access to these files
- A firm did not have clear policies and procedures on:
  - business location audit methodologies
  - security and retention of confidential materials such as client records



# Business location reviews

- Establish a risk-based schedule for reviews
- Meet with DRs/ARs on a periodic basis to ensure compliance obligations with respect to business locations are understood
- Establish policies and procedures on:
  - what DRs/ARs are permitted to do at business locations
  - how audits will be conducted, including areas to be examined
  - storage of confidential information at business locations
  - document audits conducted

# Complaints - examples

- A client complained about a DR guaranteeing returns for an exempt market product. The firm did not conduct an independent investigation of the DR's activities beyond asking the client for further information.
- A firm did not provide adequate disclosure of dispute resolution services available to clients, including time limitations and steps that must be taken by the client.

# Complaints

- Conduct an in-depth investigation of DR/AR complaints, e.g. by contacting investors
- Define complaints and distinguish them from service requests
- DRs/ARs can take notes of communication with clients and should escalate complaints to the CCO
- Train DRs/ARs on steps a client must take to:
  - file a complaint with the firm
  - escalate a complaint for independent dispute resolution

# AR supervision

- Ensure that trades are suitable and portfolio holdings are monitored on an ongoing basis for adherence to the IMA/IPS
- Review AR's personal trading activity on a periodic basis
- Establish procedures to detect transactions for securities on a restricted list
- Pre-approve AAR investment decisions

# Training – issues

- Reliance on issuers to provide product training to DRs
- Inadequate DR understanding of product features and conflicts of interest
- Abdicating responsibility for training to DRs, e.g. making DRs solely responsible for conducting their own ongoing KYP
- DRs/ARs not having knowledge of:
  - the firm's compliance system and policies
  - registration category limitations

# Training

- Inform DRs/ARs on registration category limitations
- Train DRs/ARs on compliance, regulations and products; and ensure that manual is periodically read and understood
- Conduct quizzes prior to authorizing a DR to sell a product
- Train DRs/ARs on referral arrangements
- Keep training records, including record of attendance