

# Client Focused Reforms: KYC, KYP and Suitability Sweep - Findings from ASC Reviews

Adam Hillier, Team Lead, Registrant Oversight

James Steele, Regulatory Analyst, Registrant Oversight

# Today's agenda

## KNOW YOUR CLIENT (KYC)

- Determination of risk profile
- Collection of financial circumstances information
- Keeping information current

## KNOW YOUR PRODUCT (KYP)

- Firm assessments and approvals
- Registered individual obligations
- Monitoring for significant changes in securities
- Transfers in and client directed trades

## SUITABILITY

- Suitability determination supporting documentation
- Impact on client's account / portfolio concentration and liquidity
- Impact of costs
- Reasonable range of alternative actions
- Client directed trades

# KYC – Determination of risk profile

## *Issues*

- No change in the process for collecting risk information post-CFRs.
- No confirmation of risk profile by client.

## *Guidance*

- Document and confirm assessment of both risk tolerance and risk capacity and how risk profile was determined.

# KYC – Collection of financial circumstances information

## *Issues*

- Liquidity needs not collected.
- No or inadequate collection of net financial assets, net worth, and income.
- No breakdown of financial assets.

## *Guidance*

- Comprehensive information is needed for registrants to have an accurate understanding of their clients' financial circumstances.

# KYC – Keeping information current

## *Issues*

- Information not reviewed and updated at required minimum frequency.
- Inadequate documentation of periodic reviews and updates.
- No client confirmation of changes.

## *Guidance*

- Depth of review for each element depends on circumstances such as degree of changes and time since last update.
- Maintain evidence of steps taken to contact clients and make updates.

# KYP – Firm assessments and approvals

## *Issues*

- Limited or no documentation for assessment of related or connected issuers.
- Insufficient evidence of elements supporting approval.

## *Guidance*

- Assessment should align with business model and the types and complexity of securities and products offered to clients.
- Firms can tailor and delegate functions across the organization based on their business model.
- Document assessment process and recommendations supporting the approval.

# KYP – Registered individual obligations

## *Issues*

- No assessment documented for model portfolios.

## *Guidance*

- Reasonable steps to fully understand securities vary depending on complexity, risk of securities and duties at the firm.
- Firms should provide materials and provide training as necessary.

# KYP – Monitoring for significant changes in securities

## *Issues*

- No process to monitor or no evidence of monitoring.

## *Guidance*

- Define what constitutes a significant change based on the types and complexity of securities and business model.
- Implement a process for monitoring for significant changes and document the oversight results.



# KYP – Transfers in and client directed trades

## *Issues*

- No assessment performed for transferred in securities and client directed trades – or not performed within a reasonable time.
- Excluding these securities from processes.

## *Guidance*

- KYP assessment applies to all transferred-in securities, but depth of assessment depends on the circumstances.

# Suitability – Suitability determination supporting documentation

## *Issues*

- Inadequate process for model portfolios.
- Limited documentation of assessment of suitability factors.

## *Guidance*

- Documentation for the assessment of each factor depends on its relevancy to the suitability determination.

# **Suitability – Impact on client’s account/portfolio concentration and liquidity**

## *Issues*

- Not establishing and applying appropriate concentration and liquidity controls including across multiple client accounts.
- Insufficient financial circumstances KYC information to assess a client’s concentration in exempt market securities.

## *Guidance*

- Establish appropriate controls in place to calculate, monitor and manage concentration in a client’s account and across a client’s portfolio at the firm.

# Suitability – Impact of costs

## *Issues*

- Inadequate documentation of consideration of costs when assessing securities with comparable alternatives.

## *Guidance*

- Consider all relevant direct and indirect costs, fees, commissions and charges and assess those costs against the costs of other investment options available through the firm.

# Suitability – Reasonable range of alternative actions

## *Issues*

- A reasonable range of alternatives was not considered when:
  - selecting securities to be included in model portfolios;
  - selecting model portfolios for clients.

## *Guidance*

- Assessment can be centralized for certain business models.
- Requirement applies in respect of all securities approved by the firm and depends on business model.

# Suitability – Client directed trades

## *Issues*

- No documentation to evidence the determination and alternative action recommendation.
- Inadequate consideration of factors for the proposed investment action.

## *Guidance*

- First determine the suitability of the proposed investment action and advise client of recommendation prior to accepting client instructions.

# Guidance

- CSA Staff Notice to be published soon.
- CFR Implementation Committee FAQs:  
<https://www.securities-administrators.ca/csa-activities/client-focused-reforms/frequently-asked-questions-cfr/>.



# Contact us



Adam Hillier  
James Steele



Adam.Hillier@asc.ca  
James.Steele@asc.ca



403.297.2990  
587.437.5023



# Findings from recent ASC compliance reviews

Ashley Lee, Senior Regulatory Analyst

Claudine Sigua, Regulatory Analyst



# Topics

- Know your client (**KYC**)
- Know your product (**KYP**)
- Suitability
- Disclosure information
- Conflicts of interest
- Client reporting

- Marketing
- Policies and procedures
- Referral arrangements
- Insurance
- Fund and trust accounting

# Know your client

- Inadequate collection of KYC information:
  - Establishing if a client is a domestic and foreign politically exposed person.
  - Confirming and collecting sufficient information on the client's personal and financial circumstances.
  - Collecting and updating a client's trusted contact person information.
- KYC forms not signed by the advising representative.

# Know your product

- KYP assessment conducted does not consider all the relevant aspects or elements of the security.
- No KYP assessment conducted for proprietary products.

# Suitability

- Suitability determination does not:
  - consider all the KYC information;
  - assess the impact of concentration and liquidity on the client's account or portfolio.
- Client's portfolio not aligning with their KYC information and/or investment policy statement.
- Re-assessment of suitability not performed at the time of a triggering event.
- Insufficient documentation supporting the suitability determination.
- Suitability determination is only conducted at the "household" level.

# Disclosure information

- Insufficient information in the investment management agreement.
- Insufficient and inaccurate information in the offering documents of prospectus-exempt investment funds.
- Inadequate relationship disclosure information:
  - Custodian; limitation on products and services offered; conflicts of interest; dispute resolution services; KYC information; trusted contact person; and temporary holds.
- Updated relationship disclosure information not provided to clients.

# Conflicts of interest

- Addressing material conflicts of interest only with disclosure.
- Inadequate response to material conflicts of interest:
  - Use of client consent as only response.
  - Only performing suitability determination for related party products.
- Failure to identify and address material conflicts of interest (i.e. fee arrangements, referral arrangements, and in-house net asset value calculations).
- Inadequate or no disclosure of material conflicts of interest.
- Inadequate conflicts of interest record keeping.
- Failure to obtain client consent for managed account trades in related securities.

# Client reporting

- Inadequate information included in statements.
- Failure to provide report on charges and other compensation and/or investment performance report to clients.
- Household statements provided instead of:
  - a separate statement for each client account;
  - separate annual reports for each client account (or for each client with written consent).



# Marketing

- Misleading and inadequate marketing materials:
  - Unsubstantiated, unbalanced and/or exaggerated claims.
  - Performance return data does not disclose the applicable time period.
  - Source of information for third party information is not disclosed.
  - Activities of institutional investors without adequate disclosures.
- Unregistered individuals or companies holding themselves out as registered.
- Inappropriate use of business or trade names.
- Inappropriate use of corporate officer titles by client-facing registered individuals.

# Policies and procedures

- Inadequate or not in existence in certain areas of the firm's operations.
- Not updated to include client-focused reforms amendments, specifically, KYC, suitability, KYP and conflicts of interest.
- Obtained from a template without tailoring to the firm's operations.

# Referral arrangements

- Inadequate or no referral agreements in place.
- Agreements were not dated or signed by a representative of the firm.

# Insurance

- Inadequate insurance coverage.
- Changes to a registrant's insurance policy not communicated to the ASC.

# Fund and trust accounting

- Failure to provide supporting documentation of the determination of net asset value.
- Inappropriate expenses charged to the fund.
- Inadequate procedures for trust accounts:
  - Interest earned on omnibus trust accounts.
  - Wire fees charged to the fund.
- Inadequate calculations of management fees.

# Contact us



Ashley Lee  
Claudine Sigua



Ashley.Lee@asc.ca  
Claudine.Sigua@asc.ca



403-297-4009  
403-297-2069

# Thank you