

# Navigating an ASC Compliance Review



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- Who conducts compliance reviews?
  - Who is subject to compliance reviews?
  - Types of compliance reviews
  - Compliance review process
  - Compliance review outcomes
  - Tips

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## Who conducts compliance reviews

- Registrant Oversight Analysts - Market Regulation
- Review Team - lead analyst and at least one other analyst
- Team reports to Manager, Registrant Oversight
- Team/Manager reports to Director, Market Regulation

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## Who is subject to a compliance review

- Firms with a presence in Alberta
  - Exempt Market Dealers
  - Portfolio Managers
  - Investment Fund Managers
  - Scholarship Plan Dealers
  
- SROs review IIROC and Mutual Fund Dealers

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## Compliance review categories

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- Business conduct reviews
- Financial conduct reviews

- Comprehensive reviews
- Targeted reviews
- Onsite reviews
- Desk reviews

## How we select firms for review

- Initial registration review
- Prioritize reviews based on risk assessments
- Routine review schedule
- For cause reviews
- Sweeps
- Terms and conditions reviews



- Flexible approach
- Routine reviews - generally comprehensive
- For cause - tailored to concern identified
- Scope may expand

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## Purposes of a compliance review

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- To assess compliance with securities laws
- Focus on detection and prevention
- Significant educational component

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## EMD review program – key areas tested

- Compliance system (PPM)
- Know your client and suitability
- Know your product
- Conflicts of interest
- Relationship disclosure information
- Marketing and sales practices
- Oversight of DRs and firm personnel
- Client reporting

- Compliance and supervision
- Portfolio management
- Trading and brokerage
- Custody
- Contracts (including service agreements)
- Conflicts of interest
- Relationship disclosure information
- Marketing practices
- Client reporting

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## IFM review program – key areas tested

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- Fund accounting
- NAV calculation
- Trust accounting
- Conflicts of interest
- Financial condition
- Custody

- Scheduling of initial interview
- Section 58 appointment
- Announcement letter
- Initial books and records request list
  - Policies and procedures manual
  - Organization chart and management structure
  - Transaction list/assets under management
  - Marketing materials
  - Template forms for KYC, IMA, RDI, disclosure of conflicts

- Initial interview
- On-site review of books and records
- Interviews with DRs, ARs, and compliance staff
- Post field review stage, findings may change

- What we look for in books and records:
  - Documentation of compliance with securities legislation
  - Client file records
  - Firm's due diligence records

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# Documentation is key!



"Gretel, I think we should have left a paper trail instead of breadcrumbs."

- Organize books and records
  - Save in electronic format, label files
  
- Separate records by entities
  - Differentiate between firm vs issuer records
  
- Keep an open line of communication and seek clarification

- Investors called based on client files selected
- Investor participation is voluntary
- Investors asked about:
  - Accuracy of KYC information
  - Investment recommendation/advice
  - Knowledge of investment
  - Sales practices
- Investor call findings included in compliance report

- Preparation and review process
- Issuance to firm
- Factual accuracy check response
  - Limited to checking facts
  - Do not respond to deficiencies in the report at this stage

- Deficiency classification - “significant” or “non-significant”
  
- Main criteria for classifying deficiency as significant:
  - Client harm or risk of client harm identified
  - Findings prevalent or pose significant business risks to firm
  - Significant lapses or material non-compliance with regulatory requirements
  - Failure to rectify deficiencies previously identified
  
- Proportionate regulation - context considered, including:
  - Type of clients
  - Type of products
  - Size of firm

- Exit meeting
  - Report findings
  - Next steps
  
- Final report issued

- Response outcome
- Regulatory action outcome

- Final compliance report
  - Non-significant deficiencies: firms expected to resolve internally with no written response required
  - Significant deficiencies: written response required within 3 weeks
  
- Response stage
  - Assessment of whether the written response is satisfactory
  - Follow-up with firm until outstanding issues are resolved
  
- Closing letter

- Generally, goal is to help registrant become compliant
- Terms and conditions examples:
  - Appointment of monitor
  - Special reporting
  - Restrictions until proficiency established
- Suspension and termination

- When registrant is reviewed again in future, focus is on:
  - Testing compliance issues identified during previous review
  - Ensuring that the action plan proposed by the firm in previous review has been implemented
- Repeat findings indicate potential failure of the compliance system or CCO/UDP failure

- Appoint single point of contact
  
- When responding to questions or document requests:
  - Speak to actual operations
  - Cover the entire review period
  - Provide truthful, complete disclosure
  - Provide documents in format(s) requested
  - Walk through examples
  
- Set aside resources to work with regulators

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Are you ready for a review?

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***“By failing to prepare, you are preparing to fail.”***

-Benjamin Franklin

- Create a culture of compliance
  - Do you know your regulatory obligations under NI 31-103?
  - Is your PPM adequate and up to date?
  - Are your books and records readily accessible and up to date?
  
- Attend ASC Outreach sessions!

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