

Effective Compliance Systems

Registrant Outreach Seminar November 19 and November 20

Content of Policies and Procedures Manual

The following are examples of the key topics to be addressed in a registered firm's written policies and procedures manual, where applicable to the firm's registration category(ies) and the nature and risk of its business and operations. The topics and sub-topics listed below are not exhaustive – policies and procedures on other topics and sub-topics may be needed in many cases for a registered firm to comply with its policies and procedures requirement under section 11.1 of NI 31-103.

This guidance is intended for registered firms directly regulated by the OSC, namely exempt market dealers (EMDs), portfolio managers (PMs) and investment fund managers (IFMs). The topics are listed by those that apply to:

- A. [all registered firms](#)
- B. [only EMDs and PMs](#), and
- C. solely to [EMDs](#), [PMs](#) or [IFMs](#) (including [mutual fund sales practices](#)).

So, for example, a PM would be expected to have policies and procedures on the topics and sub-topics under A) for all registered firms, B) for EMDs and PMs, and C) for PMs only.

A. For All Registered Firms (EMDs, PMs and IFMs):

Compliance

- duties and responsibilities of the chief compliance officer (**CCO**)
- duties and responsibilities of the ultimate designated person (**UDP**)
- procedures to ensure appropriate filings and notices are made to the Commission
- procedures to assess firm and individual registration requirements
- procedures to ensure compliance with any terms and conditions of registration or exemptive relief orders
- procedures to protect confidentiality of client information, including cybersecurity, and actions to be taken when there has been a security breach

Complaint handling

- identification, monitoring and resolution of client complaints
- documentation of client complaints

Risk management

- identify who is responsible for risk management, including their roles and responsibilities
- identify what the key business risks are and how they are managed
- a description of how these key business risks are measured and monitored

Financial condition and custody

- preparation, review and approval of capital calculations
- reporting any capital deficiencies to the Commission
- review and approval of insurance coverage
- safeguarding of client assets

Business continuity plan (**BCP**)

- identifying the impact a variety of business disruptions could have on your key business functions, employees, premises, systems, and records
- procedures to mitigate, respond to and recover from a business disruption
- communication with key service providers and clients
- processes for backing up your firm's key records
- regular testing, updating and assessing the effectiveness of the BCP
- identifying an alternate site to resume operations in the event of a business disruption
- assessment of the adequacy of the BCPs of outside service providers
- identifying who is responsible for the BCP

Cybersecurity

- policy on the use of electronic communications, including types of information that may be collected or sent through email, use of secured or unsecured communication systems and the verification of client instructions sent electronically
- policy on the use of firm-issued electronic devices, including the use of such devices to externally access the firm's network and data
- the loss or disposal of an electronic device, including electronic storage devices
- use of public electronic devices or public internet connections to remotely access the firm's network and data, including to access client communications or client information
- detecting internal or external unauthorized activity on the firm's network or electronic devices (e.g., hacking attempts, phishing or suspicious emails, malware)
- ensuring software, including anti-virus programs, is updated in a timely manner
- overseeing third-party vendors or service providers with access to the firm's network or data (e.g., vetting, confidentiality)
- reporting any cyber security incidents to the board of directors (or equivalent)

Conflicts of interest

- guidelines on the identification of and response to conflicts of interest
- disclosure to clients of conflicts of interest

Personal and proprietary trading

- Code of Ethics, including personal trading policies for employees, and proprietary trading
- procedures for reviewing and approving personal and proprietary trades, including written pre-approval of personal trades from the CCO and review of employees' brokerage account statements

Marketing practices

- preparation, review and approval of marketing materials to prevent false and misleading statements
- ensuring marketing materials are reviewed and approved by an individual independent of the preparer, where this individual has appropriate authority and proficiency (e.g. the CCO)
- supervision, retention and retrieval of materials on social media web sites
- construction, presentation and disclosure of performance composites, hypothetical performance data or any other performance data
- independent review and approval of performance data

- ensuring compliance with securities legislation, including prohibitions on holding out a non-registered person as a registrant, misrepresentations and on representations that the Commission has passed upon your or an issuer's financial standing, fitness or conduct
- selection and presentation of benchmarks, including blended benchmarks

Books and records

- the types of books and records that will be maintained
- the time period for the maintenance of books and records
- the location the books and records will be maintained and archived

B. For EMDs and PMs:

Client reporting

- the delivery of trade confirmations to clients (EMDs only)
- preparation, review, approval and delivery of account /additional statements to clients
- the determination and reporting of the position cost of client securities including how to treat client securities transferred in from another firm
- preparation, review and approval of annual investment performance reports
- preparation, review and approval of the annual report of charges and other compensation
- preparation, review, approval of relationship disclosure information to clients

Clients in other jurisdictions

- dealing with clients who move to or are resident in jurisdictions in which you are not registered as a dealer or adviser

Inside information, insider trading and early warning reports

- guidelines on the monitoring, preparation and filing of insider trading and early warning reports, including collecting and updating clients' status as insiders of reporting issuers
- education of employees on inside information, including definitions of "material non-public information" or "inside information" and guidance for employees on evaluating the materiality of non-public information
- containment of inside information, for example, restricting access to or dissemination of information and implementing information "firewalls"
- restrictions on transactions while in possession of inside information, for example, by the use of grey and restricted lists and blackout periods
- supervision and controls to ensure compliance by employees with the inside information policies and procedures

Money laundering and terrorist financing prevention

- establishing a compliance regime to ensure you meet your obligations under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* and Regulations
- definition of "money laundering offence" and "politically exposed persons"
- a list of applicable prescribed financial transactions and examples of suspicious transactions
- handling of prescribed financial transactions and suspicious transactions
- procedures for reporting prescribed financial transactions and suspicious transactions to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)

- records that must be maintained under the PCMLTFA and Regulations, and the time period for which these records must be maintained
- client identification requirements

Reporting requirements under the *United Nations Act* and *Criminal Code*

- establishing a compliance regime to ensure you meet your terrorist financing and United Nations sanctions reporting obligations under the *United Nations Act* and the *Criminal Code*

Referral arrangements

- criteria used for setting up referral arrangements
- guidelines on written referral arrangement agreements, including review and pre-approval by senior management
- guidelines to ensure that appropriate and adequate disclosure is given to clients
- review and approval of the disclosure given to clients

Senior and other vulnerable clients (**Vulnerable Clients**)

- how to identify investors in potentially vulnerable circumstances
- suitability of investments for account of Vulnerable Clients (e.g. age-based heightened review criteria for certain investments or product concentration)
- communicating with Vulnerable Clients (e.g. documentation standards for marketing and communications)
- identification and escalation of suspected or attempted financial abuse
- identification and escalation of concerns about a client with diminished capacity (and how the account will continue to be managed)
- the importance of a power of attorney (**POA**) and considerations of when a POA may be necessary
- discussions with clients about the existence of a POA document and the retention of any POA documents
- identification and escalation of the misuse or abuse of POAs
- training of staff who interact with vulnerable investors

C. For EMDs Only:

Know your client (**KYC**), know your product (**KYP**), suitability, and supervision

- collection, documentation and timely updating of KYC information
- understanding of products recommended to investors
- product review process
- ensuring suitability of each client transaction
- availability of prospectus exemptions (e.g. for accredited investors)
- supervision of dealing representatives

Disclosure in offering documents

- guidelines to ensure appropriate and adequate disclosure
- review and approval of offering documents prior to distribution
- procedures to ensure that there are no misleading statements or misrepresentation of facts

For PMs Only:

Trading and brokerage

- procedures governing client directed brokerage arrangements
- ensuring trades are executed in accordance with the portfolio managers' instructions
- identifying and resolving failed trades and trading errors, including how trading losses are allocated
- guidelines on the selection of dealers
- fairness in allocating investment opportunities amongst clients, including block trades, initial public offerings and other new issues
- obtaining best execution for clients and executing trades in a timely manner
- ensuring trades are settled on a timely basis in the correct client accounts, at the correct quantity and amount
- guidelines on use of client brokerage commissions (i.e. soft dollar arrangements)
- guidelines on cross trades, including their review and approval, pricing, execution cost, requirement to execute through a dealer, and restrictions on certain managed account transactions
- preparation and maintenance of trade orders
- ensuring institutional trades are matched on a timely basis, monitoring of trade matching percentages, and reporting trade matching exceptions

Portfolio management

- guidance on proxy voting, including such issues as executive compensation (e.g. stock options), take-over protection (poison pills) and acquisitions
- restrictions on risky investment strategies, such as short-selling, margining, flipping and use of derivatives
- ensuring that proxies are voted in accordance with any client instructions
- sufficient research to support investment decisions, which includes understanding attributes and risks of investments (KYP)
- collection, documentation and timely updating of KYC information for clients
- compliance with clients' specified investment restrictions or other instructions
- compliance with regulatory requirements (e.g. NI 81-102)
- supervision of individual portfolio managers, including associate portfolio managers and sub-advisers
- suitability of investments and trades for each client
- regular re-balancing of client portfolios
- valuation of securities, including fixed income, equities, derivatives and private placements

For IFMs Only:

Disclosure in offering documents

- guidelines to ensure appropriate and adequate disclosure
- review and approval of offering documents prior to distribution
- procedures to ensure that there are no misleading statements or misrepresentation of facts

Outsourcing to service providers (e.g. for fund administration, third party sub-advisors)

- procedures for monitoring service providers to ensure they are complying with securities legislation and prudent business practices, including documentation of the monitoring activities

Trust accounting

- procedures to address the requirements of trust accounts
- procedures to ensure there is no commingling of trust account assets
- procedures outlining the requirements for interest distribution
- ensuring only valid transactions take place
- procedures on the preparation and review of trust account reconciliations

Fund accounting

- procedures over the preparation, review and maintenance of reconciliations of cash and security positions
- procedures over timely and accurate recording of expenses of the funds
- guidance on the types of expenses that should be borne by the funds
- expense allocation procedures, including oversight of the allocation method
- procedures to rectify NAV calculation and/or publication errors
- valuation of securities, including fixed income, equities, derivatives and private placements
- review and approval of manually-priced securities
- calculation of management fees and other fund expenses
- review and approval of NAV calculations
- duties and responsibilities for monitoring corporate actions

Transfer agent/unitholder processing

- issuance of trade confirmations
- issuance of notices to unitholders, including those requiring unitholder approval
- ensuring transactions are processed accurately and in a timely manner
- handling of outstanding trades
- matters requiring notice to security holders, including those requiring approval
- procedures on the preparation and review of reconciliations of fund unit positions
- handling of dormant accounts
- processing of non-financial changes to unitholder accounts

Investments and trading patterns of the funds

- monitoring for compliance with Part 2 of NI 81-102 and section 111 of the Act and other investment restrictions
- monitoring for compliance with investment mandates
- monitoring of specific types of trading patterns in the investment funds managed by the firm
- monitoring of fluctuations in the NAV of the investment funds
- procedures followed by investment funds to engage in and monitor securities lending
- procedures for the determination of a fund's risk rating

Client statements

- the delivery of account statements to clients where there is no dealer of record for a security holder

Mutual Fund Sales Practices

Cooperative marketing practices

- guidelines for ensuring the primary purpose test is met
- procedures for:
 - ensuring that no more than 50% of the total direct costs are paid by all mutual fund organizations in total
 - obtaining receipts for expenditures incurred by the dealer
 - ensuring the manager's sponsorship is disclosed in writing
 - processes to ensure managers make payments to dealers, not to sales representatives

Mutual fund sponsored conferences

- guidelines for ensuring the primary purpose test is met
- procedures to ensure the manager does not influence the selection of sales representatives of dealers
- procedures to review the costs associated with an event
- consideration to permitted locations to hold conferences or seminars
- processes to ensure the manager does not pay for travel, accommodation or personal incidental expenses of sales representatives attending an event

Third party sponsored educational events

- guidelines for ensuring the primary purpose test is met
- procedures to ensure the manager does not influence the selection of sales representatives of dealers
- procedures for obtaining receipts for registration fees
- consideration to permitted locations for conferences and seminars

Industry association sponsored events

- guidelines for ensuring the primary purpose test is met
- procedures to ensure the manager does not influence the selection of sales representatives of dealers
- procedures for ensuring that no more than 10% of the total direct costs are paid by all members of a mutual fund family in aggregate
- consideration to permitted locations for conferences and seminars

Participating dealer sponsored events

- guidelines for ensuring the primary purpose test is met
- procedures to ensure the manager does not influence the selection of sales representatives of dealers
- procedures for ensuring
 - no more than 10% of the total direct costs are paid by all members of a mutual fund family in total
 - no more than 66% of the total direct costs are paid by all members of sponsoring mutual fund families in total
- consideration of permitted locations to hold conferences and seminars

Promotional items and business promotion activities

- guidelines for assessing the frequency and extent of promotional items and promotion activities
- processes for monitoring the non-monetary benefits that individual sales representatives receive