

**1.1.2 OSC Compliance Team, Capital Markets  
Branch 2003 Annual Report**

**2003 ANNUAL REPORT  
COMPLIANCE TEAM,  
CAPITAL MARKETS BRANCH, OSC**

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CAPITAL MARKETS BRANCH, OSC**

**Introduction**

The Compliance team of the Capital Markets branch of the Ontario Securities Commission has prepared this report to provide guidance to investment counsel and portfolio managers (“ICPMs”) in complying with Ontario securities laws.

The report on our activities from April 1, 2002 to March 31, 2003 is divided into two parts. The first part of the report describes various compliance initiatives and issues relating to ICPMs. The second part of the report deals with common deficiencies identified during field reviews of ICPMs. We also include some suggested guidelines to assist market participants in improving their existing procedures, establishing procedures where they are lacking, and to give general guidance that can help in improving the overall compliance environment. Our intent is to educate ICPMs about compliance practices and to encourage strong compliance and internal control environments.

We issued a similar report covering our activities from April 1, 2001 to March 31, 2002 and note that seven of the deficiencies included in this year’s report were also included in last year’s report.

A major focus of the Compliance team is the execution of compliance examinations. At the beginning of any examination, staff requests that the market participant compile various books and records that will be reviewed as part of the fieldwork. Many ICPMs have indicated that they could benefit from knowing more specifically what books and records they are required to compile for staff. We have included, in Appendix A, the listing of books and records that we request prior to the commencement of an examination and encourage you to review it. This is a generic listing and depending on the nature of your business some of the items may not be applicable.

In the past year the team has been very involved with mutual fund dealers and the Mutual Fund Dealers Association’s membership process. As a result of our continued involvement with mutual fund dealers, we were not able to focus our resources on fund managers and, therefore, the most common fund manager deficiencies have not been included.

While the major focus of the Compliance team is to conduct field reviews, Compliance staff is also involved in other initiatives. Some initiatives and issues of relevance to ICPMs are highlighted in the first part of the report.

**Part I. Initiatives and Other Issues**

**ICPM Roundtable Meetings**

The ICPM roundtable meetings, a Compliance initiative that started in fiscal 2001/2002, have continued in the past

year. The roundtable meeting is a forum for advisers to discuss issues and share ideas. It is a forum for advisers to provide their perspective on issues.

A variety of topics are discussed at the meetings. Some of the topics that have been discussed include: Rule 31-502 – Proficiency Requirements for Registrants, the Risk Assessment Project, proxy voting, Rule 13-502 – Fees and the capital formula for advisers.

Participation is voluntary and advisers are invited on a random basis. We encourage anyone that is interested in attending a future meeting to contact one of the authors of this report listed at the end of the report.

**Update on the Risk Assessment Project<sup>1</sup>**

In fiscal 2001, Compliance initiated a project to develop a risk-based selection model for routine compliance examinations. The model is intended to focus the Compliance group’s staffing resources on those market participants and the specific areas of their operations considered to be high risk. The model is used to calculate a risk “score” for each market participant based on staff’s analysis of specific factors concerning the market participant’s operations, nature of their products and client base. A numerical risk score is then assigned to each factor under analysis, and the cumulative result of these factors results in an overall risk rating for the firm. Each market participant is then ranked based on its overall resulting risk ranking. This overall ranking will be used to determine the frequency and extent of compliance field reviews for each market participant.

The last phase of the implementation of the model is now completed. Compliance staff achieved a 100% response rate from the population of ICPMs and fund managers to whom risk assessment questionnaires were distributed. The risk assessment project team spent several months analyzing the responses provided by all market participants and assigning appropriate risk scores to each. Commencing in fiscal 2003/2004, OSC staff will meet with senior management of high risk market participants to communicate their overall risk ranking to them and to discuss those areas of their operations which have been identified as contributing to their high risk rating. The timing of the next compliance field review for these market participants will also be considered. As an interim measure, some market participants may be asked to develop appropriate action plans to address the high risk areas of their operations until such time as a compliance field review is scheduled. For those market participants that have been categorized as lower risk, the risk ranking assessment will be provided to them at the completion of their next scheduled compliance review. Information relating to each market participant’s risk ranking will be provided on a confidential basis.

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<sup>1</sup> For more detailed information refer to OSC Staff Notice 11-719 – A Risk-Based Approach for More Effective Regulation.

## Monitoring of Subadvisers

Compliance staff has seen a variety of methods used by ICPMs to monitor the activities of subadvisers where they have delegated all or a portion of their investment advisory and management duties. These methods range from the periodic receipt of attestation statements from subadvisers to detailed testing of the subadvisers' trading and portfolio management activities.

In order to ensure the adequate discharge of their obligations under securities laws, ICPMs have a responsibility to monitor the duties delegated to others contractually or otherwise. The execution of a contract stipulating the terms by which a subadviser is expected to perform its duties to the ICPM cannot replace the regulatory obligations of the ICPM nor the fiduciary duty it owes to its clients. As a result, ICPMs should actively monitor subadvisers' trading activities for adherence to the investment mandates of the ICPMs' clients and for adherence to all applicable securities legislation. Active monitoring goes beyond the receipt of periodic statements from the subadviser attesting to their compliance with relevant securities laws and/or the terms of their contractual arrangement with the ICPM.

Market participants must determine what procedures they should adopt to ensure that subadvisers are being adequately monitored. Some procedures that can be adopted are:

- The performance of due diligence prior to the selection of a subadviser
- Due diligence includes assessing the adequacy of the subadviser's internal policies in the areas of personal trading, fair allocation of investment opportunities among clients, cross trading and soft dollar arrangements
- At least annually, ICPMs should request a signed acknowledgement from senior management of the subadviser confirming adherence to their policies and procedures
- Periodic comparison of the securities held in client accounts against the clients' stated investment objectives should be done to ensure client portfolios are suitable
- Periodic price testing and variance analysis for a sample of client portfolios should be done to ensure the proper valuations of portfolios

Regulation 113(3) requires registrants to retain books and records necessary to properly record their business transactions and financial affairs. For that reason, ICPMs are expected to retain sufficient evidence of their monitoring activities, including the resolution of any issues identified with regard to the performance of subadvisers.

## Mutual Funds – Securities Lending

2001 amendments to National Instrument 81-102 ("NI 81-102") allow mutual funds to engage in securities lending. Part 2.12 of NI 81-102 sets out the conditions that must be met if the mutual fund intends to engage in securities lending. One of the conditions is that the arrangement is a securities lending arrangement as defined in section 260 of the Income Tax Act ("ITA").

Securities lending arrangements involve the transfer, sale, or purchase of securities for a period of time, in order to generate income. These arrangements include securities loans (where securities are loaned out for a period of time in return for collateral), repurchase transactions (where securities are sold and subject to repurchase at a later date) and reverse repurchase transactions (where securities are purchased and subject to resale at a later date). Part 2 of NI 81-102 permits mutual funds to enter into securities lending arrangements with other parties provided certain conditions are met. This includes the requirement that only securities defined in section 260 of the ITA as "qualified securities" may be lent. Over the past year several mutual funds in Ontario have lent trust units under these arrangements. These are not qualified securities under section 260 of the ITA. As a result, these securities were deemed to have been disposed for tax purposes, exposing the funds to potentially adverse tax consequences.

Staff reminds market participants that only qualified securities as defined in section 260 of the ITA are permitted in securities lending arrangements. Market participants must ensure that the custodian or sub-custodian whom they have appointed as agent to administer these transactions is aware of and abides by the requirements of Part 2 of NI 81-102 and section 260 of the ITA.

## Proficiency Requirements for Registrants

Representatives of the investment adviser industry have raised concerns about the proficiency requirements for compliance officers of firms registered as advisers under Rule 31-502 – Proficiency Requirements for Registrants ("Rule 31-502") and also with respect to the requirements for designated compliance officers and their delegates under Rule 31-505 – Conditions of Registration ("Rule 31-505"). The proposed amendments are intended to provide alternative proficiency requirements for compliance officers of advisers and to clarify the roles assigned to individuals involved in the supervision of advisers' regulatory compliance.

The proposed Rule 31-502 amendments will provide alternatives which recognize practical expertise in compliance matters. The current requirement under Rule 31-505 requires an adviser to designate a compliance officer who will be responsible for certain duties and is permitted to delegate some of those duties to another individual who has the same proficiency as the designated individual. The amendments to Rule 31-505 propose a system whereby a senior officer assumes ultimate responsibility for the compliance functions, while day-to-day

supervision of the compliance function is undertaken by an operating officer whose proficiency is determined in accordance with the amended requirements under Rule 31-502.

The proposed amendments can be read in their entirety on the OSC website. The comment period ended on March 31, 2003, however, the amendments are not yet final.

### The Capital Formula for Advisers

The Compliance team began an initiative on the capital formula for advisers to determine whether, based on the risks in the adviser environment, changes were warranted to the minimum capital requirements.

An analysis of what the requirements are in other jurisdictions has been done and a focus group meeting was held with representatives from the adviser population to obtain their views on the issue. We are currently in the process of analyzing alternatives to determine what our next steps should be.

### Part II. Common ICPM deficiencies

This part of the report discusses those deficiencies that occurred with the most frequency based on Compliance examinations conducted from April 1, 2002 to March 31, 2003. A necessary element of a market participant's business is a compliance program that effectively addresses the inherent risks in the business of advising and helps the firm meet its compliance obligations. An effective compliance program increases the firm's compliance with regulatory requirements. This report is meant to provide guidance and help ICPMs review their compliance programs, supervisory and internal control procedures and to establish a stronger compliance environment.

The ten most common deficiencies noted in our reviews of ICPMs are:<sup>2</sup>

1. Policy for fairness in allocation of investment opportunities
2. Maintenance of books and records
3. Statement of policies

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<sup>2</sup> While this report focuses on those deficiencies most commonly noted, Compliance staff also identified issues in numerous other areas at ICPMs. Deficiencies were also identified in the following areas: cross transactions, disclosure issues, proxy voting, management fee calculation errors, dealing with clients in other jurisdictions, late filing of audited annual financial statements, expired insurance, trust account issues, subordinated loan issues, trade name issues, monitoring of subadvisers, advertising of registration, soft dollar issues, conflicts of interest, best price and execution, non-compliance with clients' investment restrictions and guidelines, registration issues, unregistered trading activity, contract issues, and statements of portfolio.

4. Policies and procedures manual
5. Capital calculations
6. Portfolio management
7. Marketing
8. Know your client and suitability information
9. Personal trading
10. Registration issues

The noted deficiencies are followed by some suggested guidelines that may assist you in improving your compliance procedures. These suggested guidelines are not mandated or required, and there may be others that may be just as effective. They may provide you with some guidance on what would work best at your firm.

#### 1. ***Policy for fairness in allocation of investment opportunities***

Every investment counsel must have standards to ensure fairness in the allocation of investment opportunities among its clients. ICPMs are required to prepare a written fairness policy dealing with the allocation of investment opportunities among clients. The policy must be filed with the Commission as well as distributed to all clients. The policy should specify the method used by the ICPM to allocate securities purchased in block trades and/or initial public offerings (IPOs) to client accounts, including their in-house pools. The policy should also include the method used by the ICPM to allocate price and commissions on these trades among client accounts. Advisers have a fiduciary duty to clients to allocate trades equitably among client accounts.

During our reviews, staff observed the following:

- The ICPM had not prepared a fairness policy
- The ICPM did not provide clients with a copy of the fairness policy
- The ICPM did not file a copy of the fairness policy with the Commission
- The fairness policy did not include a methodology for allocating block trades or IPOs
- The ICPM did not follow the allocation practices set out in its fairness policy
- The fairness policy contained wording that was very generic and was not tailored to the ICPM's business
- The allocation of shares to client accounts was done on a "best judgement" basis instead of being done using a more independent method such as, pro-rata basis

- The policy does not describe how security prices and commissions will be determined when trades are blocked

*Suggested practices*

Each ICPM should tailor its fairness policy to address all relevant areas of its business. At a minimum, it should state:

- How price and commissions are allocated among client accounts when trades are blocked
- How block trades are allocated among client accounts when there is only a partial fill
- The process for determining which clients will participate in “hot issues” and IPOs
- The process for the allocation of prices and commissions for block trades that are filled in different lots and/or at different prices

**2. Maintenance of books and records**

ICPMs are required to maintain books and records necessary to properly record their business transactions and financial affairs. Regulation 113(1) requires them to maintain the books and records that are necessary to properly record their business transactions.

During our reviews, staff observed the following:

- Trade instructions were provided verbally from the portfolio manager to the trader/executing broker with no record of the instruction kept
- The ICPM could not locate certain client management agreements
- The ICPM did not maintain a trade blotter or the blotter maintained was incomplete
- The ICPM did not maintain copies of each trade order or instruction
- Trade orders were not time-stamped
- A complaints log recording the nature of complaints and their resolution was not maintained
- A log of failed trades and trading errors was not maintained
- There was no documentation in client files regarding a client’s directed brokerage arrangement
- No record of monthly capital calculations was maintained

- Client files do not contain the most current documentation such as advisory agreements
- Monthly trial balances and financial statements are not prepared
- Cash and security reconciliations are not prepared

*Suggested practices*

A list of books and records that ICPMs are required to maintain is contained in Regulation 113(3). ICPMs should also retain any other books and records necessary to properly record their business transactions and financial affairs.

**3. Statement of policies**

ICPMs who provide advice with respect to their own securities or securities of certain issuers who are connected or related to them are required to disclose these relationships. Every registrant is required to include this disclosure in a statement of policies which is to be filed with the Commission, as well as distributed to each client. Regulation 223 requires that registrants prepare and file a statement of policies with the Commission as well as provide a copy to their clients.

During our reviews, staff observed some the following deficiencies:

- The ICPM had not prepared a statement of policies
- The ICPM had not filed the most current statement of policies with the Commission and/or did not provide all clients with a copy
- The ICPM had not updated its statement of policies to include all related issuers
- The ICPM did not list its own pooled funds as related issuers
- The ICPM did not describe the nature of its relationship with related and connected issuers
- The ICPM distributed a statement of policies to clients that differed from the one filed with the Commission

*Suggested practices*

- A current statement of policies should be prepared and filed with the Commission
- If a significant change occurs, a revised statement of policies must be filed with the Commission and distributed to all clients
- A copy of the statement of policies should be provided to all clients

- The statement of policies should include a complete listing of related issuers along with a concise description of the nature of the relationship with each of the related issuers
- The statement should include the disclosure required in Regulation 223(1)(d)

#### 4. ***Policies and procedures manual***

ICPMs are required to establish and enforce written policies and procedures that will enable them to serve their clients adequately. ICPMs should prepare a policies and procedures manual (Manual). They should ensure that the Manual is in sufficient detail, is updated on a periodic basis, and is made available to all relevant staff. The relevant regulatory requirements should be outlined in the Manual. Written procedures contribute to a strong compliance environment.

During our reviews, staff observed the following:

- The Manual contained out-dated references to rules and regulations of the Act
- The Manual did not contain procedures covering all major areas of the business
- The Manual was not sufficiently detailed
- The Manual was not made available to all staff
- The procedures used in practice were not consistent with the procedures outlined in the Manual

#### *Suggested practices*

Each ICPM should establish and enforce a written Manual that is sufficiently detailed, up to date, and which covers all relevant areas of its business. The following list of topics should be considered for inclusion in a standard Manual:

- Trading and Brokerage
  - Guidelines on the selection of brokers
  - Fairness in allocation of investment opportunities among client accounts
  - Obtaining best price and best execution for clients
  - Executing trades in a timely manner and in accordance with the portfolio manager's instructions
  - Monitoring and resolving failed trades and trading errors
  - Guidelines on soft dollar arrangements with brokers

- Portfolio Management
  - Guidance on proxy voting
  - Performance of sufficient research to support investment decisions
  - Collection, documentation and timely updating of KYC and suitability information for clients
  - Compliance with clients' specified investment restrictions or other instructions, such as directed brokerage
  - Compliance with regulatory requirements
  - Supervision of sub-advisers
  - Suitability of investments for each client
- Administration
  - Handling of client complaints
  - Opening and closing of client accounts
  - Insider and early warning reporting
- Financial Condition
  - Preparation, review and monitoring of monthly capital calculations
- Money Laundering Prevention
  - Definition of "money laundering" and examples of suspicious transactions
  - Handling of prescribed and suspicious transactions
  - Procedures to report prescribed and suspicious transactions to the Financial Transactions and Reports Analysis Centre of Canada
  - Documenting the records which should be maintained under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act and Regulations*

#### 5. ***Capital calculations***

ICPMs are required to prepare a monthly calculation of minimum free capital and capital required (capital calculation) within a reasonable period of time after each month end. The capital calculation is to be prepared based on monthly financial statements prepared in accordance with generally accepted accounting principles (GAAP). All market participants are required to inform the Commission

immediately should they become capital deficient. They are required to rectify the capital deficiency within 48 hours.

During our reviews, staff observed the following:

- Capital calculations were not prepared or were not prepared on a timely basis and, therefore, monitoring of the firm's capital was not done
- Capital calculations were not prepared in accordance with GAAP
- Monthly accruals for expenses such as rent payable, utilities payable, and other monthly operating expenses were not recorded
- Management fee revenue was not properly recorded
- The insurance deductible on the financial institution bond was not included in the calculation or an incorrect amount was included
- There was no evidence that a review of the calculation was performed by someone other than the preparer
- The ICPM did not inform the Commission of a capital deficiency
- Copies of the monthly capital calculations were not maintained, therefore eliminating the audit trail
- The market participant was capital deficient
- Capital calculations were performed on a quarterly basis

#### *Suggested practices*

- The ICPM's capital position should be calculated on a monthly basis within 2 weeks of month end and should be based on financial statements prepared in accordance with GAAP
- Copies of the calculations should be maintained for purposes of an audit trail
- A person other than the preparer should review the calculations to ensure they are accurate
- Evidence of the review should be documented
- The Commission should be informed immediately should the ICPM's capital position become deficient

#### **6. Portfolio management**

Portfolio management is the provision of investment advice to clients based on their stated investment objectives. Advisers have a significant degree of discretion in the

management of client assets and a fiduciary duty to their clients. Investments must always be consistent with clients' objectives and any client restrictions must be adhered to. Advisory contracts, which govern the activities of the adviser, should contain adequate disclosure of all material facts.

During our reviews, staff observed the following:

- The advisory fee being charged to clients was not consistent with the rate stated in the advisory agreement
- Clients' portfolio holdings were not in compliance with their investment restrictions.
- Terms of the advising contract had changed, however, the contract was never updated to reflect the changes.
- Management of client accounts was not in accordance with the terms of the advising agreement. For example, subadvisers were used, the fee was performance based instead of as a percentage of assets under management, asset allocation percentages were not adhered to, established limits were not adhered to, etc.
- Written notice to terminate the advising agreement was not always obtained
- Accounts are managed prior to the execution of an advisory agreement
- Accounts are managed without an investment management agreement

#### *Suggested practices*

- A review of clients' holdings should be done on a frequent enough basis to ensure that holdings are consistent with the investment restrictions
- The correct advisory fee should be charged to clients
- Contracts should be updated whenever any terms have changed
- Written notice should always be obtained prior to terminating any advising agreement
- The advisory agreement should be executed prior to the management of the account beginning

#### **7. Marketing**

In order to deal fairly, honestly and in good faith with clients it is necessary to ensure that all marketing material include accurate information that is not misleading to clients.

When marketing mutual funds, the requirements of Part 15 of NI 81-102 must be adhered to.

During our reviews, staff observed the following:

- Performance data of mutual funds was not disclosed for the required time periods
- Internal marketing requirements were not being adhered to
- The disclosure and warning language required by 15.2(2) of NI 81-102 was not always present
- Performance figures used to compare fund performance were for funds that did not have similar fundamental investment objectives, were not under common management or an index
- Marketing materials contained information that was incorrect
- Marketing materials being used were outdated
- Composites, used in marketing materials, did not include all the required client accounts and were, therefore, improperly constructed
- References to the Association for Investment Management and Research ("AIMR") were used when the firm was not AIMR compliant
- Performance data was not provided for the required time periods
- No evidence was maintained of any review of marketing material

*Suggested practices*

- Sales communications pertaining to a mutual fund must be made in accordance with Part 15 of NI 81-102.
- Marketing material should be regularly updated to ensure all information is complete and accurate and not misleading to clients
- Establish and enforce procedures with respect to the preparation, review and approval of marketing materials
- Establish guidelines on the preparation of performance data and the construction of composites
- Require the approval of all marketing material from someone independent of its preparation

**8. Know your client and suitability information**

ICPMs are required to collect and maintain current "know your client" (KYC) information that would allow the ICPM to ascertain general investment needs of its clients, as well as the suitability of a proposed transaction. ICPMs should

collect client information such as investment objectives, risk tolerance, investment restrictions, investment time frame, annual income, and net worth.

During our reviews, staff observed the following:

- KYC information was not collected for all clients
- KYC information that had been collected was not complete
- KYC information had not been updated periodically or since the opening of the account
- KYC information was not formally documented
- KYC forms were not signed by clients
- A standard KYC form was not used to collect and document KYC information and suitability information

*Suggested practices*

- Complete KYC information must be collected for all clients
- KYC information should be periodically updated
- Clients must sign the KYC information form
- If possible, maintain KYC information in an electronic format which can be used to generate exception reports
- Maintain a pending file when a KYC form is incomplete
- The pending file should be cleared on a timely basis and prior to any trade execution

**9. Personal trading**

ICPMs are required to establish and enforce written procedures for dealing with clients that conform to prudent business practice. The establishment and enforcement of a detailed policy on the personal trading of responsible persons is a prudent business practice. It will ensure that conflicts of interest and abusive practices are avoided. A responsible person is defined in subsection 118(1) of the Act.

During our reviews, staff observed the following:

- There was no policy in place to monitor personal trading by responsible persons
- A personal trading policy was in place but was not being enforced by the ICPM
- The compliance officer's personal trades were not pre-approved by an independent person



- Employees' trade confirmations and statements of accounts were missing from some employees' files
- Pre-approval forms were not always matched against employees' statements to ensure all personal trades were pre-approved
- A log of all instances of non-compliance and their resolution was not maintained
- No formal process in place to pre-approve personal trades, maintain or review personal brokerage statements
- No review of personal trading was being done
- The registrant's policies and procedures for the monitoring of personal trading were not being adhered to
- Requirement for employees to complete and submit an annual certification is not being adhered to
- Pre-approval for personal trades was verbal, written documentation was not required

*Suggested practices*

- Designate a compliance officer who is responsible for reviewing and maintaining personal trading records
- Distribute clear personal trading restrictions and reporting obligations to all responsible persons
- Personal trading procedures should include blackout periods, the requirement for pre-approval of all personal trades and a review of portfolio statements
- Require all responsible persons, on an annual basis, to acknowledge in writing that they understand and will abide by the firm's personal trading policies
- Maintain a record of personal trade approvals as documentary evidence that personal trading is being monitored
- Employees should direct their brokers to send statements of their accounts directly to their employer
- On a monthly or quarterly basis, review employee statements and reconcile all trades to the approvals granted
- All personal trades should be pre-cleared

- Put a process in place to deal with personal trading violations
- Establish an independent review committee to review personal trading

**10. Registration issues**

Every registered adviser is required to notify the Director, within 5 business days, of any changes in address and any change in the status of directors and/ or officers.

During our reviews, staff observed the following:

- Individuals that were officers were not registered with the OSC
- Individuals that were directors were not registered with the OSC
- Branch offices of the company were not registered with the OSC

*Suggested practices*

- Notify the Director, on a timely basis, of all changes.

**APPENDIX A**

**ADVISER COMPLIANCE FIELD REVIEW  
LIST OF BOOKS AND RECORDS  
REQUESTED FOR REVIEW**

**A. Planning -Field**

1. A copy of the Registrant's Statement of Policies as required by Regulation 223
2. A copy of the Registrant's standards to ensure fairness in the allocation of investment opportunities among its clients as required by Regulation 115
3. A copy of the Registrant's disclosure of its related registrants and the policies and procedures adopted to minimize the potential for conflict of interest resulting from these relationships as required by OSC Rule 31-501
4. A copy of the Registrant's current organizational chart and a listing of employees with telephone numbers
5. A list of individuals responsible for providing investment advice to clients during the review period, and the name of the compliance officer
6. A list of all individuals that are subject to "close supervision" terms and conditions imposed by the Commission
7. A list of all branch offices, including those that were closed during the review period
8. A list of all affiliated parties to the Registrant and the nature of the relationship
9. A copy of any reports issued during the review period by the Registrant's internal audit department, including a copy of management's response
10. A copy of any management letters issued during the review period by the Registrant's external auditor, including a copy of management's response
11. A copy of all minutes of meetings of the Board of Directors, Audit Committee, Investment Committee or other committees of the Registrant, during the review period

**B. Financial Condition**

12. A copy of the Registrant's financial statements as at the end of the most recent fiscal year and as at the end of the review period
13. A copy of the monthly capital calculations for the entire review period

14. A copy of the insurance certificate of renewal

**C. Contracts**

15. A list of clients as at the end of the review period. For each client, identify the custodian, type of account (e.g. equity, balanced, fixed income), whether or not the Registrant has discretionary authority, and the total amount of assets under management
16. A list of clients whose contract provides for performance based compensation
17. A copy of each of the Registrant's standard advisory contracts or agreements
18. A copy of powers of attorney or letters of authorization that confer discretionary authority, if not incorporated directly in the contracts specified in item 17
19. A copy of the Registrant's fee schedule, if not included in the contracts specified in item 17

**D. Portfolio Management**

20. A list of any joint ventures or any other businesses in which the Registrant or any officer, director, portfolio manager or trader of the Registrant participates or has any interest in
21. Total assets under management as at the end of the review period
22. A copy of any sub-advisory agreements with other investment advisers
23. Client files, including access to former clients' files

**E. Trading & Brokerage**

24. A list of clients who have instructed the Registrant to direct a portion or the entirety of their brokerage to particular broker-dealers, including the name of the brokerage firm and the client's reason for such direction, if known
25. A list of all initial public offerings that the Registrant participated in during the review period
26. A list of all brokerage firms where client transactions were effected during the review period, identifying the name of the firm, amount of agency commissions paid and the volume of transactions
27. A list of all soft-dollar arrangements. This list should include the name of the broker or other entity involved, the nature of the goods or services received by the Registrant and the approximate annual amount of commissions on securities transactions needed to satisfy each arrangement

28. A listing of all cross transactions which took place during the review period
29. If the Registrant, its related persons or affiliates have custody of client funds or securities, a list which includes the names of all such clients, the current market value of all assets in their possession or to which the Registrant has access, and the location(s) where such assets are held
30. A list of all proprietary trading or investment accounts of the Registrant or of any "associated persons". "Associate" is defined in the *Ontario Securities Act* ("Act")
31. A list of accounts of individuals who are directly or indirectly related to the Registrant or any of its related persons, the account number, and the person to whom he/she is related
32. A list of all persons required to report personal securities transactions to the Registrant during the review period, including any officer or employee of Registrant's affiliates deemed as associated persons
33. Records of employee personal securities transactions including those for any person deemed to be associated persons during the review period
34. Listing of all securities held in all client portfolios (aggregate position totals for all securities) as of the beginning and end of the review period. This list should show the name of each security and the aggregate number of shares or principal amount held for total client portfolios.
35. Registrant's trading blotter for the review period. If possible, provide the information in chronological order with the following fields of data:
- a. Trade date
  - b. Type of transaction (i.e. buy/sell)
  - c. Number of shares or principal amount
  - d. Security name
  - e. Identifying number (e.g. cusip number)
  - f. Price
  - g. Total commission
  - h. Commission in cents per share
  - i. Fees
  - j. Accrued interest
  - k. Net amount to/from client
- l. Client name
- m. Client account number
- n. Broker or dealer name
- If possible, please provide the trading blotter in Microsoft Excel compatible format on 3.5inch diskette
36. A copy of the Registrant's written policies and procedures manual
- F. Custody**
37. General ledger, trial balance, cash receipts and disbursements journals and bank reconciliations for all trust accounts for the review period
38. Bank statements, deposit books and cancelled cheques for the review period for all trust accounts
- G. Marketing**
39. A copy of any promotional brochures, pamphlets, or other materials routinely furnished to prospective clients (e.g. proposals); and a copy of any marketing materials (e.g. newspaper or magazine ads, radio scripts, reprints, seminar materials etc.) used to inform or solicit clients. If the Registrant makes information about its services available on the INTERNET, provide the address.
40. A copy of any composite or representative performance reports, data, or graphs currently disseminated to clients or prospective clients
41. The criteria the Registrant employs in the construction of any composite or performance data included in the records described above
42. A list of all parties that received any referral fees during the review period
- H. Administration**
43. Complaint log and complaint files for the review period
- I. Conflicts of Interest**
44. A copy of written policies and procedures and any Code of Ethics governing the personal securities transactions of the Registrant's employees and those of participating affiliates.
45. Access to a log of all instances of non-compliance with the Registrant's Code of Ethics for the review period including resolutions to the non-compliance

**J. Money Laundering**

46. A copy of the policies and procedures for money laundering

**Contact Information**

For further information, please contact:

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