
Client Focused Reforms

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Agenda

- 1 Proprietary products**
- 2 Costs, charges and fees**
- 3 Relationship disclosure information**
- 4 Misleading communications**

Proprietary products

- Tailor KYC process to reflect the business model.
- Collect information about client's financial circumstances such as other investments held and determine:
 - risk profile
 - concentration in an issuer (or related issuer group), sector or geographic area
- Determine client's willingness to accept risk and ability to endure potential financial loss.

Proprietary products

- Proprietary products should be subject to the same KYP process as non-proprietary products.
- Tailor KYP process to reflect the business model.
- KYP factors for comparing proprietary vs. non-proprietary products:
 - structure and features, including risk profile
 - fees and costs
 - past performance
 - likelihood of meeting investment objective
 - liquidity and redemption features
 - conflicts of interest

Proprietary products

- Suitability determination must:
 - put the client's interest first
 - be based on specific factors
- Factors to consider when making suitability determination:
 - KYP factors
 - concentration in an issuer (or related issuer group), sector or geographic area
 - a reasonable range of alternative actions available to the firm
 - client-directed trades

Proprietary products

- Conflicts of interest and the best interest standard:
 - disclosure alone and obtaining client acknowledgement is not sufficient
- Factors that increase materiality of conflicts:
 - higher fees and costs
 - sales commissions and ongoing fees
 - non-monetary benefits
- Controls to address conflicts:
 - a robust KYP process for proprietary products
 - availability of non-proprietary products
 - establishing neutral compensation arrangements
 - supervisory and compliance controls

Costs, charges and fees

- Assess the initial and ongoing costs of the product.
- Assess the impact of costs on the client's return on investment.
- Firms should explain the features and costs of account types:
 - fee-based vs. commission-based account
 - determine suitability of account type before opening the account



Costs, charges and fees

- Assess compensation-related material conflicts of interest.
- Conflicts of interest arising from:
 - third party compensation
 - internal compensation arrangements and incentive practices
 - fee-based accounts
 - referral arrangements
 - fee differentials for similar products and services

Relationship disclosure information

- Proprietary product means a security of a related/connected issuer as well as an investment fund managed or advised by the firm or an affiliate.
- Section 14.2(2)(b.1) – limits on the products/services offered including:
 - whether the firm will primarily or exclusively offer proprietary products
 - other limits on the availability of products or services
- Examples of disclosure:
 - disclose all related and connected issuer products
 - disclose any related party PM and IFM of the issuer of the security
 - product limits include those covered by registration category (e.g. EMD, RPM)

Relationship disclosure information

- Section 14.2(2)(b)(i) – restrictions on client’s ability to liquidate/resell a security.
- Market restrictions:
 - no secondary market for trading
- Timing restrictions:
 - hold periods
 - redemption frequency (monthly, quarterly, etc.)
 - advance notice requirements
- Monetary restrictions:
 - cash redemption limits
 - issuance of promissory notes in lieu of cash redemptions
 - penalties for redeeming early



Relationship disclosure information

- Disclosure in relation to costs, charges and fees:
 - operating charges that client may pay
 - general description of types of transaction charges
 - investment fund management expense fees or other ongoing fees that the client may incur
 - general description of monetary and non-monetary benefits that the firm receives or expects to receive from third parties
- General explanation of the potential impact of compounded fees and charges on the client's returns.



Relationship disclosure information

- Material conflicts must be avoided or managed in the client's best interest; disclosure alone is not sufficient.
- Disclosure of conflicts in relation to proprietary products:
 - relationship with related and connected issuers and products
 - whether non-proprietary products are offered
 - compensation arrangements
 - costs, charges and fees



Relationship disclosure information

- Disclosure that any investment action taken, recommended or decided on must be suitable and put the client's interest first.
- Provision of KYC information collected from the client.

Misleading communications

- Registered individuals and registered firms must not hold themselves out in a misleading manner in respect of their:
 - proficiency, experience, qualifications or category of registration
 - relationship or potential relationship with the client
 - products and services
- Registered individuals who interact with clients must not use:
 - titles, designations, awards or recognitions based partly or entirely on sales activities
 - corporate officer titles unless appointed to corporate office
 - titles or designations unless approved by the firm

Guidance

- Part 13 of [National Instrument 31-103](#) and the Companion Policy 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.
- Section 14.2 of National Instrument 31-103 and the Companion Policy 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.
- [Client Focused Reforms](#) – FAQs (updated April 29, 2022).

Thank You

