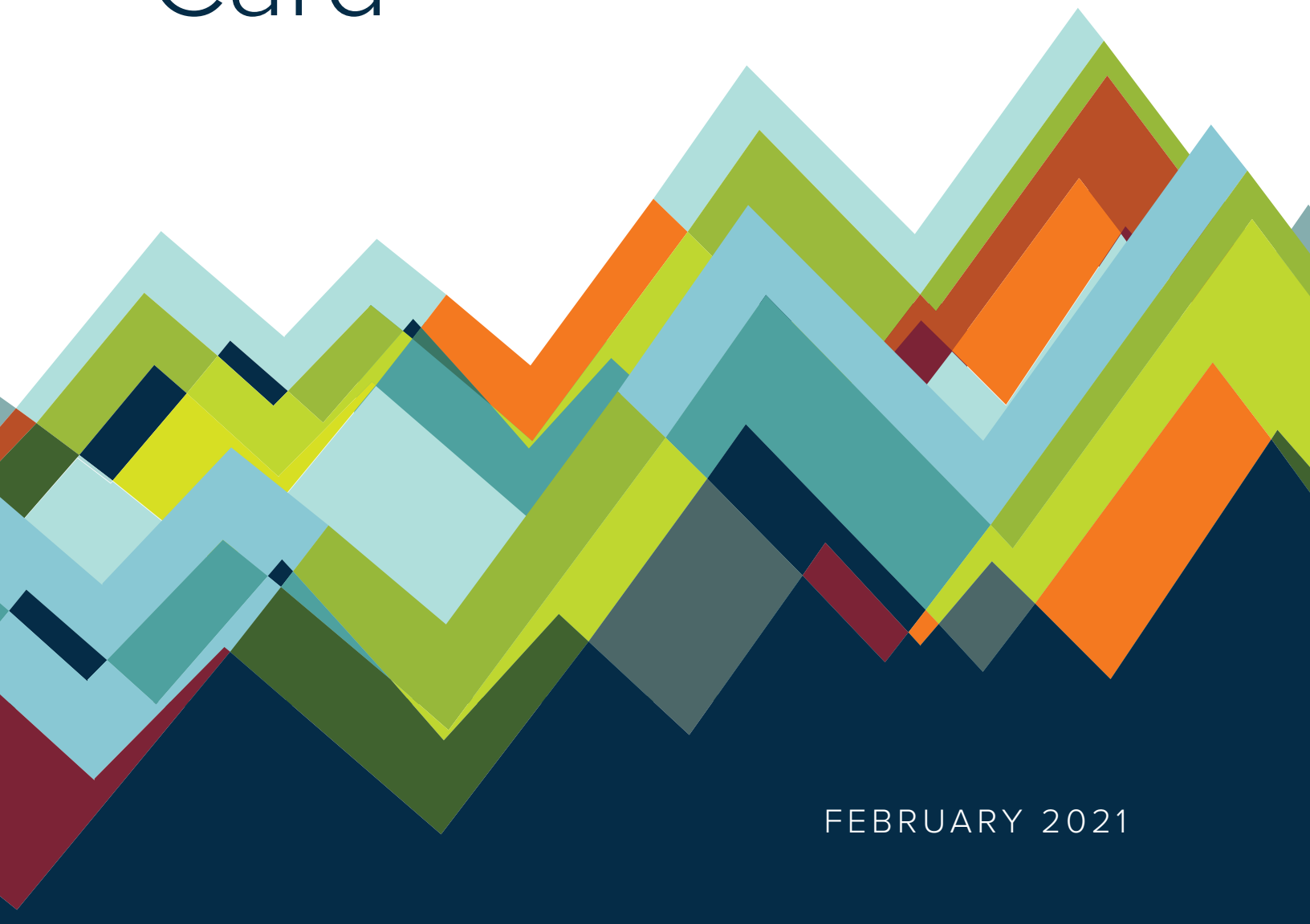
British Columbia
Securities Commission

2019 and 2020 Compliance Report Card



FEBRUARY 2021

The Compliance Report Card (Report Card) summarizes the findings that our compliance teams made in the course of their reviews of the compliance programs of BC-based portfolio managers (advisers), investment fund managers (IFMs), and exempt market dealers (EMDs) from April 1, 2018 to December 31, 2020

We provide this Report Card to chief compliance officers (CCOs) and compliance professionals to help them improve their compliance programs. The Report Card highlights problem areas we saw and explains our approach to compliance examinations.

Our firms

At December 31, 2020, the British Columbia Securities Commission (BCSC) had 149 directly registered firms (excluding IIROC and MFDA firms). Based on the nature of each firm's business, our directly registered firms consisted of:

- 81 adviser firms (including IFMs)
- 71 dealer firms (including EMDs)

The number of dealer firms that are directly registered with the BCSC increased substantially from 39 at March 31, 2018, as a result of the BCSC repealing the registration exemptions previously offered in BC Instruments 32-513 *Registration Exemption for Trades in Connection with Certain Prospectus-Exempt Distributions* and 32-517 *Exemption from Dealer Registration Requirement for Trades in Securities of Mortgage Investment Entities* (collectively the former registration exemptions). We discuss the former registration exemptions in more detail below.

In addition to registered firms, we also continued to monitor market participants' reliance on registration exemptions such as the foreign dealer and adviser exemptions.

Our approach to regulation – risk and outcomes based

Our goal is to foster a culture of compliance among market participants. Where we find serious compliance failures or dishonest conduct, we will take decisive action. The past two years, we found significant failures of compliance that resulted in the imposition of terms and conditions on registration and/or a referral to our Enforcement division.

We help our registered firms foster a culture of compliance by assigning dedicated relationship managers (RMs) to each firm. Our RMs maintain communications with the firms assigned to them. They understand each firm's business and compliance program. We encourage firms to contact their RMs to discuss compliance-related issues or to report changes in their business or personnel. Please contact us if you do not know your RM (see contact details at the end of this report card).

The BCSC continues to use its predictive risk model to assess the risks for BC-based registered firms. In June 2019, registered firms responded to our 2019 risk questionnaire. We use the data collected from this questionnaire, together with each firm's past examination results, to run our risk model to predict the likelihood of compliance failures as measured by significant and repeat deficiencies. Risk questionnaire responses also help us identify new information for registrants such as significant growth, management changes, new products, and higher risk investment strategies. In addition to reviewing firms due for review based on the time elapsed since their last review, the risk questionnaire information and the risk model help us choose firms with the highest likelihood of compliance failures for our compliance examinations. Once we choose a firm to review, we use the information we know about that firm to tailor our compliance review program to test any compliance risks we have identified.

If we receive information or complaints that indicate any market participant is seriously noncompliant or dishonest, we conduct a "for cause" review.

COMPLIANCE REVIEW FINDINGS - TOP DEFICIENCIES

In our compliance reviews of registrants, we tested 49 deficiency categories covering nine operational areas.

From April 1, 2018 to March 31, 2019, we conducted 27 compliance reviews and found 241 compliance deficiencies, averaging 8.93 deficiencies per review. We observed an upward trend in average number of deficiencies per review.

From April 1, 2019 to December 31, 2020, we conducted 35 compliance reviews and found 285 compliance deficiencies, averaging 8.14 deficiencies per review, which is a decrease in the average number from 2019, but is still an upward trend over the past five years:

Year[1]	Average number of deficiencies per review
2020	8.14
2019	8.93
2018	6.57
2017	6.58
2016	4.29

[1]For 2020, the deficiency tracking period is from April 1, 2019 to December 31, 2020. All other years the deficiency tracking period is from April 1 of the previous year to March 31 of the noted year (for example the tracking period for 2017 is from April 1, 2016 to March 31, 2017).

COMPLIANCE REVIEW FINDINGS - TOP DEFICIENCIES

The five top ranking deficiencies in 2019, averaged between EMD and Adviser/IFM businesses, represent 118 out of 241 (approximately 49%) of all of the compliance deficiencies we found, as follows:

Deficiency Type	**Number of Deficiencies**	**% of all Deficiencies**	***Average overall rank***
Client statements and reporting	31	13%	1
Advertising, marketing and holding out	27	11%	2
Policies and procedures	24	10%	3
Know-your-client (KYC) and suitability	19	8%	4
Disclosures	17	4%	5
Total	**118/241**	**49%**	

The five top ranking deficiencies in 2020, averaged between EMD and Adviser/IFM businesses, represent 149 out of 285 (approximately 52%) of all the compliance deficiencies we found, as follows:

Deficiency Type	**Number of Deficiencies**	**% of all Deficiencies**	***Average overall rank***
Client statements and reporting	36	13%	1
Advertising, marketing and holding out	33	12%	2
Policies and procedures	28	10%	3
(KYC) and suitability	27	9%	4
Records	25	9%	5
Total	**149/285**	**52%**	

Client statements and reporting

For two years in a row, we observed an increase in client statements and reporting deficiencies as compared to 2018[2] as some firms continued to struggle to fully understand the current CRM2 requirements contained in Part 14 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103). Some of the compliance failures we observed include:

- Account statements did not include transaction information required under sections 14.14(4) and 14.14(5) *Account statements*. We remind advisers that when they trade for a client, the client's account statements must include the required details of the trade.

- Firms that are required to send statements under section 14.14.1 *Additional statements*, provided client statements that did not include some of the items in section 14.14.1(2). Examples include a failure to name the party that holds or controls each security, a description of how the securities are held, and whether the securities are, or the account is, eligible for coverage under an investor protection fund approved or recognized by the securities regulatory authority.

- Some firms failed to deliver to their clients a Report on Charges and Other Compensation (section 14.17 of NI 31-103) and an Investment Performance Report (section 14.18 of NI 31-103). In addition, some firms that delivered the annual Investment Performance Report failed to provide the required information, such as the definition of "total percentage return" in the report, while other firms that delivered the annual Report on Charges and Other Compensation, failed to report the firm's management fees charged to the clients.

- Some firms relied on their administrators to produce client statements and reports, but failed to oversee the production of these reports to ensure that the statements met all the requirements in NI 31-103.

- Some firms' client account statements included disclaimers that the client was responsible to ensure the accuracy of the information in trade confirmations and client accounts, and that the firm would not be responsible for any accounting errors. Firms bear the obligation to ensure accurate reporting to clients.

- Some dealer firms had difficulty understanding when the relationship with their clients ceased to be transactional in nature, and became ongoing, with the requirement of continuous client reporting.

[2]Clients statements and reporting deficiencies were found in only 7% of the examined firms in 2018-2019.

- Some firms did not provide trade confirmations to clients, and instead relied on statements or acknowledgments from funds and issuers.

Advertising, Marketing, and holding out

Registered firms must ensure that they are holding out fairly, honestly, and in good faith in all advertising and marketing material they present to the public. This year, the failures we observed include:

- Unsubstantiated claims to state that the firm or their products were the first of their kind in the market, or had exceptional performance expectations.
- Misleading claims that imply that the firm was registered in categories that were superior to the registration categories of their peers.
- Advertising only the benefits of the firm's proprietary products without disclosing the related risks; for example, a firm highlighted that its exempt fund would generate 6% a year without disclosing that there is a two-year hold period on the investment.
- Presenting hypothetical performance results without labelling them as hypothetical or disclosing the assumptions made in arriving at the results.
- Claiming compliance with Global Investment Performance Standards (GIPS) when the performance presentation did not meet all requirements of GIPS.
- Failing to supervise and approve the distribution of advertising and promotional materials by electronic means.
- Not creating policies or strategies to monitor social media campaigns, and in some instances permitted representatives to operate social media campaigns in foreign languages that the CCO could not understand or monitor.

Policies and procedures

We continue to notice that many registered firms fail to have policies and procedures which reflect their business and properly manage all of their risks appropriately. Some examples we observed include:

COMPLIANCE REVIEW FINDINGS - TOP DEFICIENCIES

- Using policies and procedures manuals (PPMs) that are "off-the-shelf"; sourced from compliance consultants or legal counsel. These PPMs are well-written, comprehensive and mention almost every rule from NI 31-103, but much of the PPM is irrelevant to the firm's actual operations, because neither the firm nor the consultant/legal counsel tailored the "off-the-shelf" PPM specifically for the firms' businesses.

- Failing to update the firm's PPMs after significant changes took place at these firms or to their businesses. For example, we observed PPMs that contained references to departed staff, replaced software, former service providers, repealed legislation, and outdated procedural steps.

- Firms that employ registered and unregistered staff in multiple registration categories, established policies that are too broad to provide specific guidance to unregistered individuals, creating the risk that they could engage in registerable activities. For example, a policy of asking "all staff to only act within the authority of their registration with regulatory bodies" without providing further guidance for staff to understand what constitutes registerable activities is inadequate.

- Where firms outsource some of their compliance obligations, we expect the PPM to detail how the firm will supervise and set an appropriate standard for the external service provider.

- For firms engaged in a captive relationship with an issuer, we expect the PPM to describe the captive relationship and the practices to manage the conflicts of interest arising from it, particularly the applicable practices set out in the guidance in CSA Staff Notice 31-343 *Conflicts of interest in distributing securities of related or connected issuers.*

- Failing to detail a firm's approach to training new representatives about the firm's business and services, and about the PPM itself.

- For firms that manage funds and make investment decisions for funds, we noted examples where the PPM did not detail the firms' policies for overseeing investments in their funds and the decision-making process for selecting and approving fund investments.

We remind registered firms that PPMs should be reviewed on a regular basis to ensure that the procedures accurately reflect the firms' businesses and practices, and that the PPM is updated as required, to ensure it remains relevant and accurate.

KYC and suitability

KYC and suitability form the cornerstone of a registrant's obligations to their clients. Accurate and current client records are critical for a firm to be able to assess the suitability of a trade for a client. Failures of KYC and suitability often result in client complaints to the BCSC. We found compliance failures that include:

- Compliance staff did not conduct a thorough review of new or updated KYC forms and failed to sign off on and/or acknowledge review of those KYC forms. We found instances where KYC forms had missing or inconsistent information, and where the firm's advising staff proceeded to trade in the client's account after compliance staff failed to ensure the client's KYC form was complete or did not contain inconsistencies. We also found instances where compliance staff failed to ensure the firm updated the KYC information at regular intervals, with some intervals in an unacceptable range of 5-10 years.

- Advising staff did not document material changes to a client's life circumstances, either in detailed notes to the client's file, or through completion of an updated KYC form. Material changes can include change of employment, such as a promotion or retirement, death of a spouse, and the purchase or sale of a client's home. Registrants often have verbal communications with clients in which they discuss significant changes to KYC information, but fail to document those changes. We encourage registrants to summarize their verbal communications in writing and provide a copy to the client.

- Some firms that provide pre-authorized contributions for ongoing investments, failed to gather periodic KYC information or to conduct periodic suitability assessments on the trades of securities that resulted.

- Some firms allowed family members to provide direction on a client's account without proper written authorization, such as a power of attorney. We caution registrants that this can be one of the indications of abuse, especially for senior clients.

- Firms gathered insufficient information about clients' risk tolerance by asking clients whether their risk tolerance is "high/medium/low". Assessing suitability is more than a tick-the-box exercise and we expect registrants to engage in a meaningful dialogue with clients to understand their financial circumstances, needs, objectives and risk tolerance.

- Firms did not adhere to the client's investment policy statement (IPS) for allowable ranges in the asset allocation. Many firms allow a tolerance range for major asset classes; however, some firms failed to rebalance clients' portfolios when an asset allocation fell outside the tolerance range set in the IPS.

- Some firms placed their senior clients in illiquid investments without any analysis or documentation to demonstrate suitability based on time horizon and ongoing needs.

- Firms failed to conduct a suitability assessment when a client instructed a firm to redeem units of an investment fund distributed by the firm. We remind registrants that section 13.3(1) *Suitability* of NI 31-103 requires a registrant to take reasonable steps to ensure that, before it makes a recommendation to or accepts an instruction from a client to buy or sell a security, or makes a purchase or sale of a security for a client's managed account, that the purchase or sale is suitable for the client.

Disclosures

We found weaknesses in disclosure to clients, particularly in relation to relationship disclosure information (RDI) requirements as follows:

- Some firms failed to have any RDI at all, which resulted in a significant failure by the firm to provide the client with any disclosure about the nature of the firm's relationship with the client.

- In 2014, the Ombudsman for Banking Services and Investments (OBSI) became the required dispute resolution service for all registered firms. This was considered a significant change to the RDI, and yet, five years later, we still find some firms failed to provide their clients with the required disclosure about the firm's complaint handling process and how clients may contact OBSI for dispute resolution services. In addition, when firms received complaints from clients, we found that they failed to provide their clients with the complaint handling and dispute resolution disclosure. Firms must provide complaint handling process disclosure at the time of account opening, when a client makes a complaint, and when the firm completes its investigation of the complaint and reports its conclusion to the client.

- Some firms demonstrated persistent failures of disclosure including:
    - — Not describing the compensation paid to the firm by any other party in relation to the different types of products that a client may purchase through the registered firms.
    - — Not giving a complete description of the content and frequency of reporting for each account or portfolio of a client.
    - — Not providing an explanation of how investment performance benchmarks might be used to assess the performance of a client's investments and any options for benchmark information that might be made available to clients by the registered firm.

Records

Some adviser/IFM firms failed to meet the obligation of having their own adequate client records in order to ensure that clients receive accurate account statements. We continue to see failures to keep client records independent of the custodian and to review and reconcile the custodian's statements with the firm's books and records.

Other firms are failing to maintain records that:

- Evidence the CCO's review and approval of the firm's compliance operations, for example, marketing review and approval of new client accounts.
- Document the firm's rationale for making investment decisions.
- Document the know your product due diligence work they perform. For example, there is no written documentation to demonstrate a firm's assessment of the product it sells with a view to discharging its obligation to "know your product". This is especially pervasive in captive dealers because they assume that they know the product as they created it, so documentation is unnecessary.
- Evidence service agreements and lease agreements. For example, some firms share office space with an unrelated third party but they did not enter into a formal sublease agreement or confidentiality agreement with it.

We remind firms that they have the obligation to maintain books and records that demonstrate compliance with section 11.5 of NI 31-103.

Other deficiencies

Chief Compliance Officer function

The CCO is one of the key senior management positions at a registered firm. The firm should provide sufficient human and capital resources to support the compliance system and function, especially, when the CCO holds other titles and has additional duties and responsibilities.

Coinciding with finding numerous deficiencies at some firms, we identified significant weaknesses in the CCO role at some firms, including:

- Firms designated a CCO in name only. For example, in some instances the CCOs could not adequately describe their duties and responsibilities. This was often the case when the registered business comprised only a small portion of the firm's overall operation.

- CCOs delegated their compliance duties to junior staff without providing any support, oversight, or authority to enforce policies and procedures.

- Firms failed to document the CCO's supervisory functions and CCOs failed to review and amend their firms' PPMs in line with the changing business activities and risks of their firms.

When a CCO fails to carry out their compliance functions adequately, we usually find corresponding significant compliance failures in their firm's compliance system. Significant deficiencies in the CCO's role or the firm's compliance system can lead to the BCSC imposing terms and conditions on a firm's registration, including requiring the firm to engage a new CCO in the most serious cases.

Conflicts of interest

Registrants should be mindful of whose interests they must protect when they become involved in complex corporate structures with cross ownership between the registered firm, general partners, limited partnerships, issuers, and connected investors. We saw instances where the processes that firms adopted to manage their conflicts of interest lost sight of the fact that where a conflict of interest is so deep or pervasive that the firm was unable to manage it, the conflict should be avoided.

Although firms may attempt to manage a conflict through disclosure, we found that disclosure was often general, vague, and lacking enough specific information to allow the investor to make an informed decision about the nature of the conflict of interest and ultimately the investment itself. In other cases, the disclosure to investors was not in plain language and contained industry or technical jargon, often with dense and obtuse verbiage.

We found firms, particularly those in a captive relationship with an issuer or fund, that did not consider the nature or severity of the conflicts of interest that resulted from this relationship. We expect that these firms should consider their relationship, and develop policies and procedures that govern it and demonstrate that they actively manage their conflicts of interest.

Some firms relied on exemptive relief to meet the requirements for conflicted inter-fund trades (section 13.5 Restrictions on certain managed account transactions of NI 31-103). In their applications for exemptive relief, firms make specific representations respecting the procedures that they had adopted to satisfy the requirements for conflicted inter-fund trades. In our reviews, we noted that some of these firms failed to follow the procedures they represented in their exemptive relief application, or they failed to document their compliance with them. The BCSC considers this a significant compliance failure that could result in the BCSC revoking the exemptive relief granted.

Some firms have soft dollar arrangements with their brokers. We remind firms that soft dollars belong to the clients of the firm, and the use of soft dollars is intended to benefit clients. We found that some firms failed to provide compliance oversight to monitor, review, and approve the use of soft dollars.

Financial Statements and Form 31-103F1 Calculation of excess working capital (Form 31-103F1)

Registered firms are required to submit annual financial statements as well as interim financial information (for IFMs and EMDs) per Part 12 Financial condition of NI 31-103. In addition to reviewing these filings, when submitted throughout the year, compliance staff also request and review more in-depth supporting documents to assess these filings, and the firm's overall financial condition. Many of the firms' financial filings we reviewed did not:

- Comply with all the applicable International Financial Reporting Standards (IFRS) requirements, for example, missing disclosure as required by IFRS 1 and IFRS 16.
- Identify that financial information for the comparative financial year (i.e., prior year) is also audited as part of the auditor's report.
- Provide accurate information due to typos, mathematical errors, incorrect comparative periods and figures, and a mismatch of information between the financial statements and the Form 31-103F1.
- Prepare the Form 31-103F1 in the required form.
- Account for accrued liabilities (line 4 of the Form 31-103F1) and noncurrent related party debt for which there was no subordination agreement.

COMPLIANCE REVIEW FINDINGS

Registered firms are reminded that the basis of presentation for the interim financial information is the same for the audited financial statements. Many firms are submitting interim financial information that is extracted from accounting software or from an Excel spreadsheet, which is not an acceptable presentation format. Section 12.11(2) of NI 31-103 requires the interim financial information delivered to the regulator to be prepared using the same accounting principles that the registered firm uses to prepare its annual financial statements.

We may refuse financial filings that are inaccurate, incomplete, or improperly presented, which can result in a registered firm having to pay late filing fees. In cases where we find significant deficiencies in financial filings, registered firms may need their auditors to re-issue their audit report or re-perform audit procedures.

HOW WE TREAT NON-COMPLIANCE

The CCO must monitor and assess compliance by the firm, and individuals acting on its behalf, with securities legislation. Where we find instances of non-compliance with regulatory requirements, we expect the CCO to take immediate action to resolve these deficiencies. When we see non-compliance, we can:

- Take compliance action to:
    - — require a firm to rectify its compliance program
    - — impose registration terms and conditions to reduce the risk of non-compliance
    - — suspend registration

- Take enforcement action

Compliance action

We have taken compliance action against firms where we identified significant weaknesses in their compliance programs. In 2019 and 2020, the Executive Director imposed registration terms and conditions on two adviser firms and four dealer firms. Terms and conditions vary but recently we have imposed terms and conditions that:

- Require firms to hire a compliance monitor to work with them to remedy compliance deficiencies (see the CSA staff notice on the use of compliance monitors: https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/PDF/31-356__CSA_Staff_Notice___August_22__2019

- Prevent firms from accepting new clients until they have rectified their compliance failures.

- Prevent firms from conducting trades for clients until they update clients' KYC information.

- Require firms to hire a new CCO.

Any conditions placed on the registration of a firm are public and reported on National Registration Database (NRD) and the public National Registration Search service.

We can also charge costs for our compliance reviews and we often do so where we see significant compliance failures, repeat deficiencies, or conduct that indicates the firm is not adequately managing its compliance program or the risks associated with its business.

HOW WE TREAT NON-COMPLIANCE

Enforcement action

In 2019 and 2020, we referred a number of adviser and dealer firms to our enforcement division. We refer firms for enforcement action when we see systemic or significant failures that pose risks to clients, or repeat significant deficiencies that firms fail to resolve or where we see the need for significant further investigation. In these instances, the firms have cultures of compliance that either fall or appear to fall, significantly short of our expectations. Actual client harm is not a prerequisite for an enforcement referral. Enforcement outcomes are public.

Securities Act amendments

In October 2019, the BC legislature introduced and passed over 100 amendments to the *Securities Act*. These amendments provide the BCSC with enhanced administrative and enforcement powers to provide better investor protection, as well as modernizing the Act to ensure it keeps pace with evolving markets and systemic risks. Some of the amendments include:

- enhancements to the compliance regime, including the regulation of "promotional activities" (formerly "investor relations activities")
- procedures to allow staff to impose administrative money penalties for routine violation of securities legislation
- implementation of a regime to regulate derivatives and financial benchmarks
- expanding the BCSC's investigative powers, including powers to obtain information
- strengthening obligations relating to records
- new prohibitions against false or misleading statements
- new tools for collecting financial sanctions from persons who have assets, including assets held by third parties
- expanding powers to allow for an administrative penalty of not more that $5 million for a failure to keep records that enable the determination of compliance with securities legislation

Repeal/expiry of the Northwestern and MIE exemptions

Earlier in 2019, we made significant changes to the registration regime in British Columbia.

On February 15, 2019, the BCSC revoked the former registration exemptions and encouraged the businesses that relied on them to apply for registration. Provided that these businesses were compliant with the exemptions, the businesses were provided a one year transitional registration exemption while BCSC staff processed their registration applications. Registration staff received approximately 40 new registration applications, mostly from mortgage investment entity (MIE) firms. Many of the MIE firms that applied for registration do not have prior securities experience, and staff will work closely with them to assist them to meet the standard expected of registrants under NI 31-103.

In relation to market participants that previously relied on the MIE and Northwestern exemptions that did not seek registration, compliance staff will actively monitor their activities and refer them for enforcement action where they appear to be engaging in the business of trading in securities.

We believe these changes to the registration regime improve harmonization and provide important investor protections for the investing public in British Columbia.

Client focused reforms

On October 3, 2019, the Canadian Securities Administrators (CSA) published rule amendments to implement the Client Focused Reforms (the reforms) across Canada. The reforms include new requirements on conflicts of interest, KYC and suitability, know-your-product and other areas and are expected to increase investor confidence in the industry.

The reforms came into effect across Canada on December 31, 2019. There will be a phased transition period, with the reforms relating to conflicts of interest taking effect on June 30, 2021, and the associated relationship disclosure provisions taking effect on December 31, 2021. You can view the publication via this link: https://www.bcsc.bc.ca/securities-law/law-and-policy/instruments-and-policies/3-registration-requirements-related-matters/current/31-103/31103-amendments-to-national-instrument-31103-registration-requirements-exemptions-and-ongoing-registrant-obligations-et-al-csa-notice
CSA's website also contains additional information about the reforms:
https://www.securities-administrators.ca/industry_resources.aspx?id=1916

Client Relationship Manager framework

In June 2020, the CSA established a new framework to provide flexibility to portfolio management firms that utilize separate teams to manage their relationship with clients, and to conduct research and analysis of securities for the clients' portfolios

When a portfolio manager sponsors an individual for registration as an advising representative, the portfolio manager may identify the applicant as a client relationship management specialist, whose advice to clients will not include stock-picking. The BCSC will impose terms and conditions on client relationship management specialists registered as advising representatives, which will prohibit them from providing stock-picking advice. They will also be required to tell clients about the limits of the advice they can give.

Additional information about how to utilize this framework is available at the BCSC's website: https://www.bcsc.bc.ca/industry/registrant-regulation/compliance-toolkit/client-relationship-management-specialists

EXAMINATION FOCUS AND APPROACH 2021

During the year ahead, we will continue to select firms for review based on significant changes of business, revenue, or size:

- For our registered firms, we will continue to focus on the top deficiencies, as well as other areas such as managing conflicts and handling senior clients. In June 2019, the CSA published CSA Staff Notice 31-354 *Suggested Practices for Engaging with Older or Vulnerable Clients* that registrants should refer to: https://www.bcsc.bc.ca/securities-law/law-and-policy/instruments-and-policies/3-registration-requirements-related-matters/current/31-354/31354-suggested-practices-for-engaging-with-older-or-vulnerable-clients-csa-staff-notice

- For firms that previously relied on the former registration exemptions (as discussed previously in this report card) that did not register under the transitional relief offered under the former exemptions, including both issuers and distributors of securities, where they appear to have continued to be in the business of trading in securities, we will review them to test that their business activities are in compliance with securities legislation.

2020 was a challenging year for many firms due to the impact of the COVID-19 pandemic and the resulting market volatility affecting clients' accounts. All firms had to implement their business continuity plans to some degree to cope with the business shutdown and the industry is still in transition. Recognizing the challenges, our compliance teams will primarily be continuing to conduct off-site compliance examinations by video-conference or phone interviews, and reviewing of records.

A new approach that BCSC compliance teams are adopting is interviewing clients of registered firms. While BCSC staff have historically not contacted clients of a registered firm as part of the compliance review process, we have done so in exceptional cases and have found that client contact can be a valuable method of assessing the firm's compliance with BC securities law.

Accordingly, we will be expanding our use of this important tool and will be contacting clients in select compliance reviews. Clients may be asked a variety of questions regarding their experience with their registered firm and representative, including such things as the accuracy of KYC information the firm has about them and investment recommendations and advice provided to them.

Unless BCSC staff have reason to believe that regulatory action against a firm may be warranted, clients who are contacted by BCSC staff will be informed that they are being contacted in the normal course of a compliance review of the firm, and that the call to them should not be interpreted as a sign of any misconduct by the firm. Clients will also be informed that they are not required to speak with BCSC staff should they choose not to, and that their participation in the compliance review process is entirely voluntary.

CONNECTING WITH THE BCSC

We remind you to subscribe to the *Weekly Report*, so that you can get early information about legislative changes on the horizon.

If you have questions or concerns, please contact your relationship manager, the Compliance Managers, or the Director.

Mark Wang Director, Capital Markets Regulation	mwang@bcsc.bc.ca 604-899-6658
Mark French Manager, Registration & Dealer Compliance	mfrench@bcsc.bc.ca 604-899-6856
Janice Leung Manager, Adviser/IFM Compliance	jleung@bcsc.bc.ca 604-899-6752

Adviser/IFM firms:

Colleen Ng Senior Compliance Analyst	cng@bcsc.bc.ca 604-899-6651
David Rajanayagam Senior Compliance Analyst	drajanayagam@bcsc.bc.ca 604-899-6532
Edwin Leong Lead Compliance Analyst	eleong@bcsc.bc.ca 604-899-6682
Janet Kwong Compliance Analyst	jkwong@bcsc.bc.ca 604-899-6807
Jason Chan Senior Compliance Analyst	jchan@bcsc.bc.ca 604-899-6735

Dealer firms:

Grace F.P. Yu Senior Compliance Analyst	gyu@bcsc.bc.ca 604-899-6614
Crystal He Compliance Analyst	che@bcsc.bc.ca 604-899-6795
Kai Shi Compliance Analyst	kshi@bcsc.bc.ca 604-899-6838
Stacey Reddick Compliance Analyst	sreddick@bcsc.bc.ca 604-899-6734
Lucy Z. Chen Compliance Analyst	lzchen@bcsc.bc.ca 604-899-6697

Published February 2021.

British Columbia
Securities Commission

www.bcsc.bc.ca