

# **POLICIES AND PROCEDURES MANUAL**

## **Chapter 2 : REVIEW CATEGORIES AND RISK MODEL**



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## 2. Review categories and risk model

### 2.1 Annual review of business addresses under Policy No. 2 (MFDA only)

The reviews required under MFDA Policy No. 2 will be carried out in each calendar year between January 1 and December 31 for all representatives.

Branch Managers are responsible for reviewing representatives who are attached to their branch but whose business address is different from the branch's.

For representatives attached directly to Head Office, the firm's Compliance Auditors will be responsible for conducting the review.

The review program created for business addresses identified under Policy No. 2 must be used for this purpose.

**N.B.** A review under Policy No. 2 is not required if a review under Policy No. 5 is carried out during the current year.

#### 2.1.1 Establishment of the review list under Policy No.2 and follow-up

At the beginning of the year, reviews of representatives attached directly to Head Office will be assigned to a PEAK Compliance Auditor. For representatives attached to a Branch Manager, an email is sent to the Branch Managers in early January to provide them with a list of their review obligations and to obtain their plans for the review.

Follow-up must be carried out as follows:

- i) In the last week of March, send a short, friendly reminder of the obligation.
- ii) In the last week of June, send a short, friendly reminder of the obligation.
- iii) In the last week of September, resend the email originally sent in early January and request the status for each representative concerned, including the dates of the reviews carried out, in order to update PEAK's follow-up file.
- iv) From October 1 to December 31, follow up with the Branch Managers in a more regular way to ensure that all reviews under Policy no. 2 are completed by year-end
- v) A Branch Manager's failure to comply with this obligation must be escalated to the Chief Compliance Officer and the Vice President, Regulatory Affairs.

#### 2.1.2 New representatives who join the firm during the year

For representatives attached to a branch during the current year, the Branch Manager is required to carry out a review under Policy No. 2 within 90 days of their attachment.

## 2.2 Review of business addresses under Policy No.5

Policy No. 5 states that the firm is responsible for conducting compliance reviews of all its business addresses (branches and sub-branches) over a cycle of one to three years to assess and monitor the regulatory compliance of its Branch Managers and representatives. This procedure outlines how to ensure that PEAK can meet this obligation. In exceptional cases, an off-site review may be carried out. The off-site review procedure is described in section 4 of this document.

The term “branch” refers to a business address where a Branch Manager is physically on site and has an office.

The term “sub-branch” refers to a business address where only registered or non-registered representatives and/or assistants are physically on site and have an office. For business addresses in MFDA jurisdictions, a sub-branch is limited to three representatives.

The review program created for reviews of business addresses identified under Policy No. 5 should be used for this purpose.

## 2.3 Risk model adopted by PEAK to review business addresses

The Risk Assessment by Location Questionnaire is used to assess the risk of each business address.

### 2.3.1 Determination of risk

The process of determining the risk of a business address begins with data extraction for all the representatives attached to the address. The criteria used are listed below in points 1 to 16. For each of the 16 criteria, depending on the data obtained, a score is entered in the Risk Assessment by Location Questionnaire in the appropriate section. The sum of all the scores identifies the business location’s risk.

#### 2.3.1.1 Assessment scores and criteria

##### a) Scores

- No risk = 0 point
- Low risk = 2.5 points
- Medium risk = 5 points
- High risk = 10 points
- Severe risk = 100 points

##### b) Criteria

1. Assets under management at the location (business address)
  - \$0 to \$25 million = 2.5 points
  - \$26 million to \$49 million = 5 points
  - \$50 million or more = 10 points
2. Number of registered representatives at the location

- 1 representative = 2.5 points
- 2 or 3 representatives = 5 points
- 4 representatives or more = 10 points

i. Reports used:

- NRD list of representatives
- Inspection schedule

3. Products sold and activities of registered representatives at the business address

Any product offered at the business address, other than a mutual fund or a guaranteed investment certificate, is automatically given a score of 10 points.

4. Other outside activities of the representatives at the business address

No outside activity carried on by representatives = 0 points

Exercise of a financial services activity (limited to life insurance, group life insurance and/or financial planning) for less than 10 hours a week by one or more representatives = 2.5 points

Exercise of a financial services activity for more than 10 hours a week by one or more representatives = 5 points

Exercise of an activity other than financial services for less than 20 hours of a representative's week = 10 points

Exercise of an activity other than financial services for more than 20 hours of a representative's week = 20 points

Report used: NRD file (current employment section)

5. Location's number of clients

- 1 to 250 clients = 2.5 points
- 251 to 500 clients = 5 points
- 501 or more = 10 points

6. Location's average portfolio value

- More than \$150 K = 2.5 points
- \$100 K to \$150 K = 5 points
- Less than \$100 K = 10 points

7. Location's average value of commissions per representative

- More than \$100 K = 2.5 points
- \$50 K to \$100 K = 5 points
- Less than \$50 K = 10 points

8. Location's total number of transactions
  - Fewer than 10 K transactions = 2.5 points
  - 10 K to 30 K transactions = 5 points
  - More than 30 K = 10 points
9. New location or new registered representative at an existing location
  - No = 0 points
  - Yes = 10 points
  - New representative at a new location = 100 points
10. Supervisory structure at the location and experience of supervisory personnel
  - Branch Manager on site = 2.5 points
  - Representative and registered assistant only = 5 points
  - Representative only: 10 points
11. Evaluation result of the inspection of the location
  - Satisfactory = 2.5 points
  - Improvement needed = 5 points
  - Unsatisfactory = 10 points
12. Complaints concerning the location
  - None = 0 points
  - 1 substantiated complaint = 2.5 points
  - 2 substantiated complaints = 5 points
  - More than 2 complaints = 10 points
  - 1 or more substantiated complaints of a serious nature or one unreported complaint = 100 points
13. Use of leverage loans
  - No = 0 points
  - Yes = 10 points
14. Comments by the team performing daily transaction supervision at Head Office:
  - No deficiencies = 0 points
  - Minor problems, minor volume, generally corrected = 5 points
  - Major problems, major volume, no response to requests = 10 points
15. Deficiencies identified in the regulatory team's files
  - No deficiencies = 0 points
  - One or more deficiencies = 100 points

Examples of deficiencies (not exhaustive):

- Substantiated Internal investigation
- Undeclared outside activity
- Uniformity of investment criteria (KYC pattern)
- High volume of deficiencies or risky deficiencies
- Risky or questionable business practices (such as a leverage loan from an undeclared credit source)
- Any deficiency leading to close or strict supervision
- Theft or discretionary transaction
- Cessation at the firm's request

16. Cross supervision between Branch Managers belonging to the same branch

- No cross supervision = 0 points
- Cross supervision = 100 points

i. Information sources :

- NRD
- Integration team
- Compliance team

2.3.1.2 Sum of scores and identification of risk

Total score:

- 20 to 60 points = Low Risk
- 61 to 99 points = Medium Risk
- More than 100 points = High Risk

2.3.2 Review of the risk assessment during the year

A business address will be reviewed if one of the following occurs:

- Substantiated internal investigation
- Unreported outside activity
- Uniform investment criteria (KYC pattern)
- High volume of deficiencies or a risky deficiency
- Risky or questionable business practice (such as a leverage loan from an undeclared credit source, blank or falsified forms)
- Any deficiency leading to close or strict supervision
- Theft or discretionary transactions
- Termination by the firm of representative(s)

The concerned business location will be automatically rated as high risk and will be visited within the next 12 months following the discovery of the deficiency.



The Risk Assessment by Location Questionnaire table will be updated after the business address is reviewed under Policy No. 5.

If new representatives join the firm during the year, their risk will be assessed with a review under Policy no. 5 within one year after the date on which they join the firm.

### 2.3.3 Determination of the review cycle for the business location

The review cycle is determined by the risk rating obtained under section 2.3.1.2 of this procedure:

- Low Risk rating = next review in 3 years
- Medium Risk rating = next review in 2 years
- High Risk rating = next review in 1 year

## 2.4 Review schedule

### 2.4.1 Review of business locations under Policy No. 5

The dates of the reviews required under Policy No. 5 for all the firm's business locations are entered in the *Calendrier inspections* and saved in an internal log.

### 2.4.2 Review of business locations under Policy No. 2 (for MFDA jurisdictions only)

The dates of the reviews required under Policy No. 2 for all the firm's business addresses are entered in a file and saved in an internal log.

## 2.5 Procedure for mandatory review of business locations under Policy No. 5

### 2.5.1 Preparation for the review

#### 2.5.1.1 Selection of sample transactions and account openings

Before making an appointment with the Branch Manager or the representatives (if attached directly to Head Office) at the business address, the Auditor extracts the location's historical transaction supervision report and historical account opening approval report to select samples for the study of transaction suitability, integrity of the data in the forms and on the transactional platform, reasonableness of the investment criteria and quality of the Branch Manager's supervision (if applicable). For selection of the Branch Manager's transactions as a producer, a historical transaction report must be extracted for him only. The sample should cover all the representatives at the business address, including the Branch Manager as a producer (if applicable).

#### 2.5.1.2 Sample selection

Review of representatives' activities

The sampling for the review of data integrity and reasonableness of investment criteria is established as follows:

- For business addresses with 1 to 5 representatives: 5 client files per representative
- For business addresses with 6 to 9 representatives: 8 client files per representative

- For business addresses with 10 or more representatives: 10 client files per representative

#### 2.5.1.2.1 Review of the quality of the supervision by the Branch Manager at the business location

The sampling for the review of the quality of the Branch Manager's supervision of day-to-day transactions and account openings is established as follows:

- For business addresses with 1 to 5 representatives: 10 transactions and 10 account openings
- For business addresses with 6 to 9 representatives: 20 transactions and 20 account openings
- For business addresses with 10 or more representatives: 20 transactions and 20 account openings

Note that, if more than one Branch Manager is on site, the sampling is shared equally between them.

#### 2.5.2 Change in sampling

The number of samples used for the study of transaction suitability, the review of the integrity of the data in the forms and on the transactional platform, and the reasonableness of the investment criteria is automatically doubled if the business address is rated High Risk and if non-compliance problems have been raised by the Daily Transaction Supervision Department. If the business address has a Medium Risk or Low Risk rating, the sample could be multiplied by 1.5, as required in accordance with the results of the initial review.

#### 2.5.3 Selection criteria for transactions and account opening (not exhaustive)

- New client
- Substantial inbound transfer
- Purchase in a single fund or a high-risk fund
- Redemption that generated a significant redemption fee
- Corporate, estate or trust account
- Leveraged account
- Account with limited authorization or PEAK self-managed account
- Exchange-traded funds account
- Vulnerable person (aged 70 or over)
- Any other transaction that appears at first glance to require involvement by the Branch Manager
- KYC Form update

## 2.5.4 Scheduling of appointments, document list and data check

### 2.5.4.1 Scheduling of appointments and document list

The appointment is made at the beginning of the year, with the Branch Manager or directly with the representative (if attached directly to Head Office), by email or phone, to confirm availability and the business address where client records are kept. In addition, for data analysis and pre-inspection preparations, the following list of documents must be requested and received no more than two weeks before the Auditor goes to the business address.

#### 2.5.4.1.1 For business addresses without a Branch Manager on site

##### a) General documents:

- Business card of any person acting as a representative
- Advertisements and communications since the previous inspection
- Outside-activity disclosure letters
- Any document explaining the products and services offered by the business address (leaflet, kit, letter, etc.)
- Financial letters and blogs
- List of social media with addresses
- Work tools: investor profile, financial needs analysis/balance sheet, questionnaires, disclosure of compensation and fees, etc.)
- List of referral agreements received from or sent to external addresses only

##### b) Documents for the study of suitability, data integrity and reasonableness of investment criteria for each transaction selected under section 2.5.1.2.

- Latest KYC Form on file
- Transaction documents (PEAK or fund company order form)
- Limited Trading Authorization Form (if applicable)
- New account application form (fund company, self-managed, Prospera)
- Prospera agreement, if any
- Documents justifying the entry of funds (cheque, one-time PAC, T2033, T2151)
- For a new fund, proof that Funds Facts have been sent
- Access to notes on transactions analyzed (email, CRM software, hard copy or other method)

The review also serves to check the quality of the records as well as their filing and accessibility.

#### 2.5.4.1.2 For business addresses with a Branch Manager on site

In addition to the documents required in section 2.5.4.1.1, the following documents concerning branch activities must be requested from the Branch Manager on site:

##### a) General documents specific to the branch:

- Branch Manager's business card (if different from that as representative)
- Advertisements and communications since the previous inspection

- Any document explaining the products and services offered by the business address (leaflet, kit, letter, etc.)
- Financial letters and blogs
- List of social media with addresses
- Documents provided by the branch to facilitate the work of representatives or used by the Manager as producers (investor profile, financial needs analysis/balance sheet, questionnaires, disclosure of compensation and fees, etc.) (if applicable)
- Referral agreements and corresponding disclosure letters received from or sent to external addresses only
- A copy of the review reports for the current year under Policy No. 2
- A tool for supervising and monitoring (e.g., Excel workbook) daily transactions and account openings.

### 2.5.5 Creation of the inspection document directory

Create the review directory in an internal log to store the review documents.

### 2.5.6 Preparation of pre-inspection documents

#### 2.5.6.1 Extraction of documents for a business location with no Branch Manager on site

The “Guideline” tab and the “Preparation – Appointment” tab indicate the required documents, such as:

- NRD files (AMF, if applicable) for all the representatives at the business address:

The Auditor uses the registration files to check the representative’s basic information (home address, business address, current employment, provinces and categories of registration as well as other disciplines and how the representative is registered with the AMF to carry on business. In addition, the client list can be compared with this information to determine whether the representative is duly registered.

- List of clients and expired KYC forms for all representatives at the business address:

The Auditor uses the client list and the expired KYC forms to perform the following tests:

1. Compare clients’ province of residence with the representative’s provinces of registration
2. Determine the number of expired KYC forms
3. Determine the number of active accounts at \$0
4. Determine compliance with the policy on clients aged 70 and over

- List of KYC Form trends (KYC pattern) for all representatives at the business address

The KYC Form (KYC pattern) investment criteria trend analysis file is reviewed to determine whether the representative still or routinely uses the same investor profile for the great majority or all clients.

Step 1: Calculate the total number of plans per representative code

Step 2:

- Determine the number of plans with the same investment objective.
- Determine the number of plans with the same risk tolerance.
- Determine the number of plans with the same time horizon.

Step 3: On an individual or combined basis, if the results obtained represent more than 70% of the plans, the representative must explain the methods used to determine the clients' investment criteria, and the deficiency must be reported in the review program.

- Copy of the previous two inspection reports for the business address (if available)

A review of the previous two inspection reports allows the Auditor to identify whether the representative's deficiencies are recurrent and also whether they have been resolved.

- Reports on assets under management for the business address

The reports on assets under management identify the following:

- Types of product held at PEAK by the representative
- Account types (Prospera, self-directed or client name)
- Amount of assets under management by fee schedule
- Amount of assets under management by fund and fund company

- Copies of dual-employment disclosure letters for all representatives at the business address (including the Branch Manager as producer, if applicable)

If the representative is registered under MFDA jurisdiction, the outside activity disclosure letter is compared with the current employment section of the NRD file and cross-checked with the representative at the meeting.

- List of leverage loans for the business address (if applicable)

The list of leverage loans is used to do the following:

- Identify whether the representative uses a leverage strategy through an intermediary (such as B2B), RRSP loans representing more than 36% of the annual contribution and/or personal borrowing by clients in the form of a mortgage, a line of credit or any other financing product
- Check the leverage-loan approval process
- Check the file-documentation process
- Check the representative's follow-up on this strategy
- Study the loan's suitability as of the review date

- List of complaints for the business address (if applicable)

Determine whether the representative has had any complaints in the past three years (nature and severity).

- List of disciplinary measures for the business address (if applicable)

Using the investigations and disciplinary measures table provided by the Regulatory Records Department and the [www.jugements.qc.ca](http://www.jugements.qc.ca) site, check whether the representative has been subject to disciplinary measure in the past three years (type and severity).

- List of external referral agreements for the business address (if applicable)

Using the firm's list of referral agreements, check whether the representative has a referral agreement with a third party and select a sample of clients to ensure during the on-site review that the disclosure letter has been given to clients.

- List of advertisements for the business address (if applicable)

Using the list of advertisements for the representative and the list for the firm, reconcile the results to determine whether they were approved by Compliance.

During the interview, the Auditor will also confirm with the representative whether his advertisements use the questions in the review program.

- Consult the Account Opening Department and the Daily Transaction Supervision Department at Head Office to discuss potential issues involving the representative. Any deficiency will be discussed on site with the person concerned, and recommendations for improvements will be made.

- Review of the Risk Assessment by Location Questionnaire table

The review of the table provides an overview of the business location's practice, identifies problems already raised and enables an initial assessment of the location's practice.

- Extraction of lists for the distribution of exchange-traded funds

1. Extraction of lists for the distribution of exchange-traded funds:
  - Representatives authorized to distribute the product
  - Product assets under management per client

The lists identify the representatives authorized to trade exchange-traded funds and the clients holding exchange-traded funds in their portfolios. The Auditor selects a sample of two transactions for suitability analysis and documentation. The procedure will be reviewed with the representative during the interview.

2. Pre-inspection transaction review

Using points 4.25 and 4.26 of the “Tests – Transactions” tab, check the following points:

- a. Duly completed KYC Form
- b. Notes in client file, including:
  - 1. Type of transaction
  - 2. Reasonableness of the investment criteria
  - 3. Transaction suitability
  - 4. Source of the exchange-traded fund price
  - 5. Reason for selecting the fund
- c. Duly completed PEAK transaction form:
  - 1. Completeness of information
  - 2. Transaction details, including the date, time and method used to communicate receipt of the transaction instruction from the client. Only orders received by telephone or in person are accepted. All other methods are prohibited.
  - 3. Full details of the transaction
  - 4. Selected disclosures attesting to the delivery of Fund Facts and disclosure of fees
  - 5. Client signature and date or Limited Trading Authorization Form for a Prospera account (self-directed)

d. Transaction time limit

Using the transaction form and the R-Broker platform, confirm that the transaction was entered on the platform immediately after the client's instruction was received; in exceptional circumstances it may be entered up to one hour after the client's instruction was received.

3. Interview with the representative

During the interview with the representative, use points 4.25 and 4.26 of the “Module 4 – Transactions” tab to determine whether the processing procedure for exchange-traded fund orders is complete and in accordance with practice. The representative must refer to the following:

- a. Duly completed KYC Form
- b. Source of the exchange-traded fund price and reason for selecting the fund
- c. Method used to receive transaction orders. Only orders received by telephone or in person are accepted. All other methods are prohibited.
- d. Properly completed PEAK order form with all the required details
- e. Notes in the client's file concerning the nature, reasonableness and suitability of the transaction
- f. Delivery of Fund Facts and explanation of the fees
- g. Time taken to transmit the order to Head Office for transaction purposes

➤ Internet review

Use Google to do a search for the representative's name and check five pages of the results to do the following:

- Identify any advertisements, blogs and social media that the representative may be using. The information obtained will be compared with the firm's advertising and social media table.
- Identify any legal or financial problems in which the representative may be involved.
- Identify any undeclared employment that the representative may have.

The results are then compared with the representative's NRD file.

➤ Copy of the "Relevance" tab available on the transactional platform for each account selected under section 2.5.1.2

Using the historical transaction supervision report, the Auditor assesses the suitability of the selected transaction and the plan/portfolio.

➤ Copy of the latest review report under Policy No. 2 (MFDA only)

A review of the report will identify the deficiencies raised by the Branch Manager and determine whether the representative has corrected them and improved his practice.

2.5.6.2 Extraction of documents for a business location with a Branch Manager on site

➤ All the documents referred to in section 2.5.6.1

➤ Copies of the Branch Manager's latest review reports under Policy No. 2

The reports are reviewed to identify the deficiencies raised by the Branch Manager and to determine whether he has followed up on them.

➤ List of all representatives attached to the Branch Manager

➤ List of assets under management for all representatives

The list is used to check whether the Branch Manager is aware of all the products offered by his representatives.

➤ List of referral agreements with a third party

The list is used to determine whether the Branch Manager is aware of all the referral agreements that his representatives have with a third party, whether there is a possibility of a conflict of interest and whether the activity has been disclosed to clients in a letter.



- Copies of outside activity disclosure letters for all representatives

The letters are used to check whether the Branch Manager is aware of all the activities of his representatives and whether they have been disclosed to clients in the said letters.

- List of expired KYC forms

The list is used to discuss with the Branch Manager how he monitors and resolves expired KYC forms.

#### 2.5.6.3 Know Your Rep (KYR)

After the documents have been extracted and received, the Auditor must pre-complete the “KYR” tab with the initial information collected. The document will be reviewed and finalized with the representative during the interview (refer to section 2.6.1).

#### 2.5.6.4 Know your Branch (KYB)

After the documents have been extracted and received, the Auditor must pre-complete the “KYB” tab with the initial information collected.

#### 2.5.6.5 Validation of data

##### 2.5.6.5.1 Review of documents referred to in sections 2.5.4.1.1 and 2.5.4.1.2

- a) General documents: Reconcile the lists of advertisements and referral agreements provided by the representative with the firm’s lists. If the representative uses an advertisement or a referral agreement that has not been approved by the Compliance Department, the relevant documents will be transferred to the firm’s analyst, and the deficiency will be reported in the review program. If an advertisement or a referral agreement that has already been approved is subject to further review, the Auditor will forward the document for re-approval.
- b) Documents used to study suitability, data integrity and reasonableness of investment criteria: Review the documents to determine that they are complete and that all the required information has been entered. Also analyze transaction suitability and review the integrity and reasonableness of the investment criteria in relation to the client profile and transaction type. The results are recorded under the Test-Transactions tab.

##### 2.5.6.5.2 Review of supervision quality and account opening approvals by the Branch Manager (if applicable)

The following documents are used for the review:

- Daily transaction supervision report
- Account opening supervision report
- Supervision document provided by the Branch Manager
- “Client Files & Trading Test” tab, which includes tests to review the following:

1. KYC documentation

2. Data integrity versus the platform
  3. Transaction suitability
  4. Transaction documentation
  5. Transaction process
  6. Branch Manager's transaction supervision
  7. Representative's ability to serve the client (province of registration)
- "Accounts & KYC Updates" tab, which includes tests to review the following:
    1. KYC Form documentation
    2. KYC Form update
    3. Reasonableness of investment criteria
    4. Supervision of account opening or update
    5. Reasonableness of investment criteria
    6. Representative's ability to serve the client (province of registration)

The results are consolidated under the "BM General Supervision" tab, and the deficiencies raised are discussed with the Branch Manager during the interview.

## 2.6 On-site review of the business location

### 2.6.1 Review of a representative's activities at a location without a Branch Manager on site

The review of the representatives' activities is divided mainly into four steps, as described below:

- Step 1: Using the "KYR – Tel. Quest." tab and modules 1 to 6, conduct an individual interview with each representative at the business location.
- Step 2: Discuss with the representative the deficiencies raised during the pre-review and note the comments.
- Step 3: Select five client files at random to check the quality of recordkeeping. The following points are reviewed:

#### A. Review of file content:

- Copy of the latest PEAK KYC Form update
- Copies of transaction forms
- Copy of the limited authorization form (if applicable), for plans on behalf of clients only
- Copy of the Nominee Application Form for self-directed accounts (if applicable)
- Copy of Prospera agreement form (fee-based) (if applicable)
- Copy of account opening forms (fund companies), T2033, T2151
- Legal documents (for companies, trusts, estates and non-profits)
- Copy of the disclosure letter signed and dated by the client(s) (if a referral agreement is in place)
- Copy of the dual-employment disclosure letter (if applicable)
- Use of the PEAK investor profile

- Presence of inappropriate documents: insurance documents, securities, undeclared referral agreements, blank signed forms, proprietary account statements, unapproved advertising, documents concerning undeclared dual employment, undeclared complaints, without their being limited to the foregoing.

B. Review of the quality of the following notes:

Notes, which must include means of communication, date and time:

i. Transactions

1. Justification of selected product
2. Transaction type
3. Order type: solicited or unsolicited
4. Evidence of selection of the fund with the lowest possible management fees
5. Method by which the instruction was received
6. Client approval
7. Disclosure of fees before transaction
8. Disclosure of representative's compensation (low-load deferred sales charge, trailer fee, Prospera etc.)
9. Method of extracting and delivering Fund Facts before the transaction
10. Justification of transaction time (as required)
11. Confirmation of deferred orders

ii. Account opening

1. Delivery of copies of the documents signed by the client
2. Delivery of the information document on the PEAK-client relationship, the complaint-handling procedure and leverage loans
3. Delivery of the dual-employment disclosure letter for representatives registered in an MFDA jurisdiction and holding dual employment in financial services
4. Determination and reasonableness of the investment criteria

iii. Client file

1. General discussion and recommendation
2. Notes evidencing regular communication with the client to confirm that no material change has occurred, such as a change in the information in the KYC Form
3. Justification of the investment strategies
4. Review of the client's situation, including investment profile
5. Updated KYC Form

## 6. Significant events in the client's life

### Step 4: Conduct the exit interview with the representative

Using the “Deficiencies – Exit Interview” tab, summarize the deficiencies raised during the review and note the representative's comments. For each deficiency raised, as required, the representative must provide an action plan that includes a resolution date.

#### 2.6.2 Interview with the Branch Manager

If a Branch Manager is on site at the business location, an exit interview must be conducted with the following points:

1. Check the data under the “KYB” tab and finalize them as necessary
2. Check the list of representatives attached to the branch using the “Advisors List” tab
3. Complete sections A to E of the “BM Questionnaire” tab:
  - A. Branch management, structure and duties
  - B. Registration
  - C. Account opening
  - D. Supervision
  - E. Advertising and correspondence
4. Review the “BM General Supervision Questionnaire” tab with the Branch Manager to inform him of the deficiencies identified during the analysis of the reports and documents and to obtain his comments concerning supervision.
5. Conduct an exit interview with the representatives. Using the “Exit Interview” tab included in the review program for each representative, discuss the main deficiencies raised with the Branch Manager.

## 2.7 Post-review steps

### 2.7.1 Approval and change requests sent to Compliance

After visiting the business location, the Auditor must **immediately** email to the Compliance Department any required approval and/or modification requests concerning:

- Registration changes
- Complaints
- Advertising to be approved
- Referral agreements to be approved

### 2.7.2 Major deficiencies identified during the review

Any major deficiency must be escalated by email to the Internal Audit Supervisor immediately after the on-site review.

### 2.7.3 Report on the review of representatives' activities

For each representative, the Auditor finalizes his review report by ensuring that all required sections of the program have been properly completed and documented. All deficiencies and satisfactory responses from the representative must be well documented with respect to each question. A simple "X" in the "OK" column is not sufficient. The deficiencies identified and the Auditor's comments are automatically placed in the "Report" tab.

For each deficiency in the review report, the Auditor must specify the plan of action, corrective measure or response required of the representative and obtain his undertaking to comply.

### 2.7.4 Follow-up on deficiencies

To ensure adequate follow-up on deficiencies, the Auditor enters under the "Support Docs & Follow-up" tab all the follow-up deemed necessary as a result of the inspection.

### 2.7.5 Evaluation result per representative

The rating is based on the deficiencies raised, the risk associated with each deficiency (see appended list) and the Auditor's overall assessment:

- 75 to 100 points = Satisfactory rating
- 50 to 74 points = Needs Improvement rating
- Fewer than 50 points = Unsatisfactory rating

The rating is then entered in the table in the Risk Assessment by Location Questionnaire to update it. If the business location has more than one representative, the lowest rating will apply to all the representatives. The table is then revised as a whole and the required changes are made. The new risk rating determines the date of the representative's next review. See section 2.3 for details.

Inspection reports with an Unsatisfactory rating or a new High Risk rating, as well as matters requiring specific authorization or action, are reviewed by the Chief Compliance Officer, and internal measures may be taken.

### 2.7.6 Review report sent to representative

The internal Auditor must sign and date the review report and email it in pdf format directly to the representative, with a copy to the Branch Manager, if applicable. The read-receipt option must be selected when it is sent.

The representative will have a maximum of 15 working days to make comments, failing which he will be deemed to have accepted the report, as well as the action plans, corrective measures and required responses.

Once the read receipt is received, it must be kept on file, and an email must be sent to the Internal Audit Supervisor for approval (or to a Compliance manager), including the directory address. The report is then kept in the review file in digital format.

### 2.7.7 Branch activity review report

The deficiencies entered in the “BM Questionnaire” tab and the “BM General Supervision” tab under the “Deficiencies” tab are then used to write the report that will be filed the “Report” tab.

The rating is determined by the deficiencies raised and the risk associated with each deficiency as well as the Auditor’s overall assessment.

#### Evaluation result per branch

- 0 to 35 points = Satisfactory rating
- 36 to 70 points = Needs Improvement rating
- 71 to 110 points = Unsatisfactory rating

### 2.7.8 Review report sent to Branch Manager

The internal Auditor must sign and date the review report and email it in pdf format to the Branch Manager. The read-receipt option must be selected when it is sent.

The Branch Manager will have a maximum of 15 working days to make comments, failing which he will be deemed to have accepted the report, as well as the action plans, corrective measures and required responses.

Once the read receipt is received, it must be kept on file, and an email must be sent to the Internal Audit Supervisor for approval (or to a Compliance manager), including the directory address. The report is then kept in the review file in digital format.

### 2.7.9 Tracking of the list of representatives, Branch Managers and business locations

To keep track of the list of reviews to be carried out, the record of visits is checked against the NRD on a quarterly basis to ensure the list is complete and up to date.

## 2.8 Off-site review of representatives (sub-branches) and branches under Policy No.5

Off-site reviews are carried out on an exceptional basis, for reasons such as illness, family events or other exceptional circumstances.

- Illness: long-term disability and/or hospitalization of a representative
- Family event: serious illness, hospitalization or death of a member of the representative’s immediate family
- Exceptional circumstances refer to the following:
  - A representative who has no assets under management
  - A representative who holds a full-time position outside the financial services sector
  - A representative who has parked his registration

### 2.8.1 Pre-review steps

1. Authorization from the Chief Compliance Officer

Before the review of the representative, oral or written authorization from the Chief Compliance Officer must be obtained and placed in the review file.

2. Scheduling of telephone interview

The Auditor must contact the representative by email to schedule the telephone interview about 30 days in advance.

3. Extraction of the following documents for review:

- AMF and NRD files
- List of expired KYC Forms
- List of KYC patterns
- Copy of the latest inspection report
- Record of complaints and regulatory investigations
- Discussion with the Account Opening Department and the Daily Transaction Supervision Department at Head Office of potential issues involving the representative
- Regulators' sites
- Google search results
- Dual-employment list

4. Analysis of the documents in section 2.8.1 point 3

The Auditor analyzes the documents, notes any deficiencies and inconsistencies, and discusses them with the representative.

2.8.2 Telephone interview with the representative

1. Conduct the interview with the representative using the **Policy No. 2** review program and ask the representative to sign the letter concerning regulatory compliance.
2. Conduct the exit interview with the representative.

2.8.3 Change in risk rating

If, in exceptional circumstances, the firm is not able to fulfill its review obligation under Policy No. 5, representatives reviewed on an off-site basis will be rated as High risk, regardless of the result of the previous review and risk rating. The review of the business address must be carried out the following year.

2.9 Review of representatives (sub-branches) under section IV of MFDA Policy no.2

2.9.1 Review cycle

On an annual basis, the Head Office and the Branch Managers are obliged to meet with representatives who are directly attached to a business address other than the address of

the branch or Head Office, but are under their responsibility. The meeting must take place at the attachment address in the NRD if the representative meets clients and holds his records in paper format in that location. An exception may be made if the representative does not meet any clients at his business address and his records are in digital format and available at any time and place. Another address for the meeting can then be determined to reduce the travel time for both parties. For the current year, if Head Office performs a review under Policy No. 5, no review of the business address is required under Policy No. 2.

#### 2.9.2 Scheduling of appointments

The appointment is made at the beginning of the year, with the Branch Manager or directly with the representative (if he is attached directly to Head Office), by email or telephone, to confirm his availability and the business address where his client records are kept. Moreover, for data analysis and pre-inspection preparations, the following list of documents must be requested and received at the latest two weeks before the Auditor is scheduled to travel to the business address.

#### 2.9.3 Extraction of documents

- AMF files (if applicable) and NRD files
- List of expired KYC Forms
- List of KYC patterns
- Copy of the latest inspection report
- Record of complaints and regulatory investigations
- List of referral agreements
- Dual-employment list
- Advertisement list
- Discussion with the Account Opening Department and Daily Transaction Supervision Department at Head Office of potential issues involving the representative
- Regulators' sites
- Google search results

#### 2.9.4 On-site review

To carry out the review and the interview with the representative, the review program under Policy No. 2 must be used. The program covers mainly the following subjects:

- Resolution of the deficiencies in the previous inspection report
- Review of the representative's registration
- Review of the quality of assets under management
- Confidentiality of client information (computer security and bookkeeping)
- Advertising and marketing tools
- Overall compliance of the representative's practice
- Representative's policy on compensation and disclosure of fees
- Keeping of client records (documents required, presence of inappropriate documents and note taking)



#### 2.9.5 Writing of report and document storage

The Branch Manager or the internal Auditor must sign and date the review report and email it in pdf format to the Internal Audit Supervisor. The read-receipt option must be selected when it is sent.

Once the read receipt is received, it must be kept with the review report in the review file.

#### 2.9.6 Follow-up on deficiencies

To ensure proper follow-up on deficiencies, the Branch Manager or the Auditor keeps under the "Docs-Support & Suivis" tab all follow-up required as a result of the review.

#### 2.9.7 Updating of schedule

The Internal Audit Supervisor then updates the schedule.