British Columbia
Securities Commission

News Release

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BCSC finding more compliance deficiencies at investment firms

Vancouver – The British Columbia Securities Commission (BCSC) is identifying more compliance deficiencies among investment adviser and dealer firms, with client statements and promotional statements becoming the most problematic areas, according to the latest Compliance Report Card from the BCSC.

BCSC examiners uncovered 241 deficiencies in 2019 and 285 in 2020, with deficiencies per review increasing to 8.93 in fiscal year 2019 and 8.14 in 2020. The deficiency rate has mostly been rising since 2016, when examiners found 4.29 deficiencies per review.

“The vast majority of registrants work hard to comply with all their obligations,” said Peter Brady, the BCSC’s Executive Director. “Our reviews seek to fix problems before investors get harmed, and to reinforce the need for firms to be responsible stewards for their customers’ investments and financial well-being.”

The BCSC is the principal regulator for about 150 adviser and dealer firms, and aims to review most firms every three to five years. The BCSC conducted 27 compliance reviews in 2019 and 35 in 2020.

BCSC staff believe the rise in deficiencies per review could be driven by various factors:

- The BCSC’s risk-based approach to deciding which firms to examine in any given year
- The BCSC’s tailoring of questions for each firm, probing deeper into certain areas, such as cyber-security, continuity planning or the completeness of client statements, depending on the circumstances
- Firms’ ongoing adjustment to new rules, particularly in the area of client account statements and reporting, that took full effect across Canada in 2016.

The most frequent type of deficiency in the last two years was in client account statements and reporting, including failure to provide transaction information on account statements, trade confirmations, and an annual report on fees and other compensation.

Deficiencies in advertising, marketing and other promotional activity – such as making unsubstantiated claims, mentioning the benefits of an investment but not the risks, and failing to label performance results as hypothetical – have now become the second-most common area of non-compliance.

"As firms seek to attract or retain clients, marketing seems to have become bolder," said Mark Wang, the BCSC's Director of Capital Markets Regulation. "We want to make sure it's done responsibly."

When the BCSC discovers significant weaknesses at a firm, it can impose restrictions on its registration – for example, requiring the firm to hire an independent compliance monitor, or barring it from accepting new clients until the problems are fixed. In 2019 and 2020, the BCSC imposed restrictions on two adviser firms and four dealer firms.

Particularly serious problems are referred to the BCSC's enforcement team for further investigation, which could lead to public allegations, a hearing and possible penalties. In 2019 and 2020, the BCSC referred several cases that began as compliance reviews.

This year, a new set of requirements called Client Focused Reforms will take effect throughout Canada. The new rules require adviser and dealer firms to resolve material conflicts in the best interest of the clients, and that investment recommendations put the clients' interest first – in particular, that firms put more emphasis on the cost of a product.

"These new rules will result in a higher standard of conduct for firms and the individuals that work for them," Wang said.

About the British Columbia Securities Commission (www.bcsc.bc.ca)

The British Columbia Securities Commission is the independent provincial government agency responsible for regulating capital markets in British Columbia through the administration of the *Securities Act*. Our mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

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