

CSA Staff Notice 31-349

Change to Standard Form Reports for Close Supervision and Strict Supervision Terms and Conditions

July 13, 2017

Firms and individuals registered under the securities legislation of the provinces and territories in Canada enjoy the privilege of trading in securities with or on behalf of members of the public, advising members of the public about buying, selling, or investing in securities, or acting as an investment fund manager, in accordance with their category of registration. From time to time, a provincial or territorial securities regulator (or a person with delegated authority) imposes terms and conditions on the registration of a registrant to address a regulatory concern relating to that firm or individual. The authority to impose such terms and conditions is found in the applicable provincial or territorial securities legislation.

There is no prescribed form for the terms and conditions that may be applied to a registrant's registration, as their use is intended to be a broad and flexible tool capable of being adapted to meet a variety of regulatory concerns. However, over time, staff of the members of the Canadian Securities Administrators ("**Staff**") has developed standard form terms and conditions for a variety of situations, including when dealing representatives require enhanced supervision with respect to their trading activities.

Two types of terms and conditions that are frequently imposed on the registration of dealing representatives are "close supervision" and "strict supervision". These supervisory terms and conditions are usually imposed to address regulatory concerns resulting from past conduct by the registrant, or other issues bearing on their suitability for registration.

Close supervision terms and conditions require the individual registrant's sponsoring firm to review that individual's trades daily and to complete a standard form monthly report based on the review. Close supervision reports must be kept by the firm and provided to Staff upon request. Strict supervision terms and conditions require the individual registrant's sponsoring firm to pre-approve their trades and to complete a similar standard form report. Strict supervision reports must be delivered to Staff monthly. Close and strict supervision reports set out the issues that the firm must check for when carrying out its trade reviews.

The purpose of this Notice is to inform stakeholders that effective immediately, Staff has changed the standard form report for both close supervision and strict supervision terms and conditions. The new standard form reports for close supervision and strict supervision are included as schedules A and B to this Notice, respectively. It is intended that these new reports will be used for terms and conditions imposed after the date of this Notice. Neither the new reports nor the existing reports modify or subtract from any account supervision rules imposed on the individual or his or her sponsoring firm by any applicable self-regulatory organization.

The standard form reports are being changed to facilitate Staff's assessment of the nature and quality of the enhanced supervisory activities being conducted by firms with individual representatives under close or strict supervision terms and conditions. The changes to these

reports also allow Staff to determine the volume of supervised trading activity being undertaken by the individual who is subject to the terms and conditions, a relevant consideration for Staff when considering any subsequent application by that individual to have the terms and conditions removed from their registration.

The documents included as schedules A and B represent the form of reports that Staff expects to recommend be imposed on the registration of individuals. Ultimately, the decision to impose terms and conditions, and the content of any terms and conditions imposed (including any forms to be delivered pursuant to those terms and conditions) is within the discretion of the statutory decision-maker, subject to any right to be heard under the relevant securities legislation.

Questions

If you have questions about the content of this Notice, please contact the following:

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Schedule A

Close Supervision Report

This close supervision report must be completed by the firm's chief compliance officer or his or her designate.

The undersigned certifies that all supervisory activities required by this close supervision report have been properly performed, and that reasonable steps have been taken to confirm the accuracy of the information provided in this report.

Print name: _____

Sign name: _____

Position: _____

Date: _____

Instructions

1. This is a close supervision report and is required by the terms and conditions (the “**Terms and Conditions**”) on the registration of the individual to which it relates (the “**Registered Individual**”).
2. While the Registered Individual is subject to the Terms and Conditions, their sponsoring firm must review their trades on a daily basis and complete this report on a monthly basis.
3. For the purpose of this report, “trade” means the purchase, sale, or any other form of transfer of securities.
4. The review of trades undertaken by the firm pursuant to the Terms and Conditions must check for the following:
 - (a) no trades have been made in any client account until the full and correct documentation is in place;
 - (b) the Registered Individual has not been granted any power of attorney over any client accounts;
 - (c) all payments for the purchase of securities were made payable to the dealer or the fund company, and there were no cash payments accepted by the Registered Individual;
 - (d) all applicable fees have been appropriately disclosed to the client in writing;
 - (e) investment suitability (including the suitability of leveraging, if any);
 - (f) the use of pre-signed, forged, or otherwise irregular documents;
 - (g) excess trading or switching;

- (h) any additional issues specifically identified in the Terms and Conditions as being subject to trade reviews for the purpose of this close supervision report; and
- (i) any other issues identified by the firm during the review;

(collectively, the “**Review Issues**”).

5. The firm must maintain a copy of this report in its records, including following the removal of the Terms and Conditions or the termination of the Registered Individual’s employment with the firm.
6. A copy of this report must be delivered to staff of the Alberta Securities Commission (“**Staff**”) immediately:
 - (a) upon request; and
 - (b) if the firm identifies any Review Issues in Part B, any client complaints in Part C, or any instance where the individual may have failed to comply with securities legislation, the requirements of an applicable self-regulatory organization, or the firm’s policies and procedures in Part D.
7. This report and all related documents that the firm is required to deliver to Staff pursuant to the Terms and Conditions shall be delivered pursuant to the contact particulars listed in Appendix A of Companion Policy 31-103CP.
8. If the firm identifies that it has failed to comply with anything in these Instructions, the firm shall immediately deliver to Staff written notice of its non-compliance and its explanation for the non-compliance.

Part A – Trading Information

1. The name of the Registered Individual is: _____.
2. The Registered Individual’s sponsoring firm is _____.
3. The Terms and Conditions were imposed on _____.
4. The period covered by this report is _____.
5. During the reporting period, the Registered Individual made _____ trades in _____ different client accounts, of which _____ were leveraged trades. These numbers do not include trades made through pre-authorized contribution plans implemented prior to the imposition of the Terms and Conditions.

Part B – Supervision Information

1. Describe the process that was used to review all trades identified in Part A for the existence of the Review Issues:

2. Please complete the following chart for all Review Issues identified by the firm:

Name of Client	Trade	Description of Review Issue	Remedial measure taken in response

Part C – Client Complaints

1. Please complete the following chart for all complaints received from clients about the Registered Individual during the review period, regardless of whether or not the complaint relates to a Review Issue.

Name of client making complaint	Date of complaint	Description of complaint	What did the firm do in response to the complaint?	Date record of complaint sent to Staff

Part D – Additional Information

1. If as a part of its supervision of the Registered Individual during the review period the firm has identified any instance where the Registered Individual may not have complied with securities legislation, the requirements of an applicable self-regulatory organization, or the firm’s policies and procedures, please identify those instances below, unless they have already been identified elsewhere in this report.

Schedule B

Strict Supervision Report

This strict supervision report must be completed by the firm's chief compliance officer or his or her designate.

The undersigned certifies that all supervisory activities required by this strict supervision report have been properly performed, and that reasonable steps have been taken to confirm the accuracy of the information provided in this report.

Print name: _____

Sign name: _____

Position: _____

Date: _____

Instructions

1. This is a strict supervision report and is required by the terms and conditions (the “**Terms and Conditions**”) on the registration of the individual to which it relates (the “**Registered Individual**”).
2. While the Registered Individual is subject to the Terms and Conditions:
 - (a) each trade made by the Registered Individual must be pre-approved by their sponsoring firm (excluding trades made through pre-authorized contribution plans implemented prior to the imposition of the Terms and Conditions); and
 - (b) on a monthly basis, this report must be completed and a copy must be sent to staff of the Alberta Securities Commission (“**Staff**”).
3. For the purpose of this report, “trade” means the purchase, sale, or any other form of transfer of securities.
4. The review of trades undertaken by the firm pursuant to the Terms and Conditions must check for the following:
 - (a) no trades have been made in any client account until the full and correct documentation is in place;
 - (b) the Registered Individual has not been granted any power of attorney over any client accounts;

- (c) all payments for the purchase of securities were made payable to the dealer or the fund company, and there were no cash payments accepted by the Registered Individual;
- (d) all applicable fees have been appropriately disclosed to the client in writing;
- (e) investment suitability (including the suitability of leveraging, if any);
- (f) the use of pre-signed, forged, or otherwise irregular documents;
- (g) excess trading or switching;
- (h) any additional issues specifically identified in the Terms and Conditions as being subject to trade reviews for the purpose of this strict supervision report; and
- (i) any other issues identified by the firm during the review;

(collectively, the “**Review Issues**”).

- 5. If a Review Issue has been identified with respect to a proposed trade, the firm must not approve the trade until the Review Issue has been resolved to the firm’s satisfaction.
- 6. The firm must maintain a copy of this report in its records, including following the removal of the Terms and Conditions or the termination of the Registered Individual’s employment with the firm.
- 7. This report and all related documents that the firm is required to deliver to Staff pursuant to the Terms and Conditions shall be delivered pursuant to the contact particulars listed in Appendix A of Companion Policy 31-103CP.
- 8. If the firm identifies that it has failed to comply with anything in these Instructions, the firm shall immediately deliver to Staff written notice of its non-compliance and its explanation for the non-compliance.

Part A – Trading Information

- 1. The name of the Registered Individual is: _____.
- 2. The Registered Individual’s sponsoring firm is _____.
- 3. The Terms and Conditions were imposed on _____.
- 4. The period covered by this report is _____.
- 5. During the reporting period, the Registered Individual made _____ trades in _____ different client accounts, of which _____ were leveraged trades. These numbers do not include trades made through pre-authorized contribution plans implemented prior to the imposition of the Terms and Conditions.

Part B – Supervision Information

1. Describe the process that was used to review all trades identified in Part A for the existence of the Review Issues:

2. Please complete the following chart for all Review Issues identified by the firm:

Name of client	Proposed trade	Description of Review Issue	If the trade proceeded, how was the Review Issue resolved to the firm's satisfaction?	If the trade did not proceed, what became of the Review Issue?

Part C – Client Complaints

1. Please complete the following chart for all complaints received from clients about the Registered Individual during the review period, regardless of whether or not the complaint relates to a Review Issue.

Name of client making complaint	Date of complaint	Description of complaint	What did the firm do in response to the complaint?	Date Record of complaint sent to Staff

Part D – Additional Information

1. If as a part of its supervision of the Registered Individual during the review period the firm has identified any instance where the Registered Individual may not have complied with securities legislation, the requirements of an applicable self-regulatory organization, or the firm's policies and procedures, please identify those instances below, unless they have already been identified elsewhere in this report.
