

Wakeup call: CISO compliance priorities for 2024

March 29, 2024

On March 13, 2024, the Canadian Investment Regulatory Organization (CIRO) released its compliance priorities for the year. There is much in the document for CISO members to note. Dealers need to pay special attention to the emphasis on compliance with the Client Focused Reforms, and particularly the requirements concerning Conflict of Interest, Know-Your-Client (KYC), Know-Your-Product (KYP) and suitability. Dealers should also take note of the areas of focus for compliance examinations, and ensure they have the appropriate monitoring, controls, policies, and procedures in place.

The initiatives highlighted by CIRO include the following:

- **CIRO Framework** - CIRO will continue to consolidate and integrate the former MFDA and IIROC organizations.
- **Office of the Investor** - Established in 2023, the Office of the Investor will continue to conduct research and inform the development of regulation.
- **Crypto Asset Trading Platforms** - CIRO will continue to work with the Canadian Securities Administrators (CSA) and stakeholders to tailor its regulatory approach to the industry.
- **Compliance Program** - The compliance programs for mutual fund dealers and investment dealers will continue to be integrated, and the following changes are highlighted:
 - **Risk Models** - Work will continue to integrate the legacy risk models of IIROC and the MFDA.
 - **Examination Schedules** - The examination scheduling year for mutual fund dealers will be aligned with CIRO's fiscal year of April 1 to March 31.
 - **Examination Reports** - The format of examination reports will be aligned.
 - **Annual Risk Questionnaire** - The annual risk questionnaires used for both dealer types will be reviewed and aligned.
 - **Protocol for Compliance Referrals to Enforcement** - The framework governing referrals to enforcement will be reviewed and aligned.

Regarding conduct and supervision, the focus will include:

- **Client Focused Reforms (CFR) Phase II Sweep** - KYC, KYP and Suitability - CIRO and the CSA are currently conducting a sweep to evaluate compliance by

dealers with the KYC, KYP and suitability requirements in the CFR. Guidance on the regulators' expectations on how dealers may comply with the CFR will be published. The focus of CIRO in dealer examinations will include:

- **Reasonable Range of Alternatives** - Ensuring that dealers identify a reasonable range of alternatives when making investment recommendations. Attention will be paid to the scope of products considered, the timing of the assessment, the documentation required and the reasons for choosing a specific security.
- **Risk Profile** - There will be a focus on the adequacy of the dealer's process for determining risk capacity, the dealer's process for determining risk profile based on the lower of risk capacity or risk tolerance, and the procedure for ensuring that KYC is reviewed in accordance with the mandated schedule (1 year for managed accounts and 3 years for advisory accounts).
- **Product Due Diligence and KYP** - Firm level processes for product due diligence will be examined. Registrant level processes and procedures will be examined, and there will be a focus on the process to ensure that previously approved products are monitored for significant changes and registrants are notified of the changes when their clients hold those products.
- **Memorandum of Understanding with FINTRAC** - Information sharing with FINTRAC has been enhanced, and the mutual fund dealer compliance examination program will be enhanced to include testing for compliance with AML requirements.
- **Advisor Ranking Contests/Lists** - Further to the notice provided in July 2023 regarding participation by registrants in ranking contests or lists, CIRO advises that during dealer examinations they will examine dealer policies and processes relating to participation in ranking contests or lists.

Regarding registration and proficiency, the focus will include:

- **Relevant Investment Management Experience (RIME) for APMs and PMs** - Registration staff expect dealers to clearly outline the RIME to support a PM or APM application. Doing so will promote timely approval.
- **Experience Requirement for Supervisors** - Firms are encouraged to carefully review a person's education and experience before applying for approval as a supervisor. Dealers are encouraged to contact registrations staff if they require clarification before making an application.
- **Competency Profiles and Proficiency Initiative** - CIRO plans to publish rule amendments related to the Proposed Proficiency Model during the summer of 2024. Since the contract with CSI will expire in December 2025, CIRO is also proceeding with a Request for Proposal and will update further in due course.
- **Dual Registered Dealers** - CIRO reminds dealers interested in dual registration to consult the material available on the CIRO website.
- **Québec Mutual Fund Dealers** - In September of 2023, the Government of Québec approved the delegation of registration and examination of mutual fund dealers in Québec to CIRO. CIRO plans to begin examining mutual fund dealers in Québec during the summer of 2024.
- **Continuing Education** - CIRO reminds dealers and registrants to complete their CE in a timely manner, and to avoid undue burden and the risk of non-compliance by not leaving the submission of CE credits until the end of the cycle.

Regarding dealer operations and risk management, the focus will be on:

- **T+1 Settlement - Assessing dealer readiness.**
- **Cybersecurity Risk** - Firms must have appropriate controls in place to manage cybersecurity risk. During regularly scheduled examinations, CRO will look at how dealers comply with incident reporting requirements, and manage cybersecurity risk, and CRO will incorporate its assessment into the dealer risk score. The report identifies numerous common deficiency findings regarding cybersecurity policies, procedures, and documentation.
- **Proposal to Modernize Back-Office Arrangements and Subordinated Debt Financing** - CRO will undertake a review to identify opportunities to modernize the rules related to back-office arrangements and subordinated debt financing and create a detailed notice for dealer members.
- **Credit Risk Management** - CRO will continue to review dealer credit risk policies and procedures and will focus on the management of counterparty risks.
- **Debt Securities Concentration** - CRO notes that many dealers do not have adequate reporting to ensure that debt security concentration is monitored, supervised, and reported on the dealer's Form 1.

Regarding trading, the focus will include:

- **Order Marking and Client Identifiers** - CRO notes staff reviews continue to identify issues with market participants not properly marking trades, or properly applying client identifiers.
- **Internal Risk Assessments** - Market participants are required to conduct and regularly review and update an assessment of the risks associated with their trading activity and focus compliance resources accordingly. CRO will be requesting and reviewing these risk assessments.
- **Short Selling and Extended Failed Trades** - Before entering a short sale, order participants are expected to have a "reasonable expectation" to settle the resulting trade. Participants must also ensure that short sales are properly marked and extended failed trades are reported to CRO. CRO will be reviewing dealer policies, procedures, and internal testing to confirm that proper processes are in place to prevent improper short sales and to report extended failed trades.

Finally, regarding membership issues, CRO reminds dealers of the requirement to **inform them of any material changes to the dealers' business activities, and to use the new template form when submitting a business change request.**

CRO has published an ambitious priorities report. Dealers should take note of the areas of focus and ensure their compliance program is current and examination ready. Please [contact us](#) if you require any assistance updating your policies and procedures.

By

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