

New Opportunities and Challenges in Supervision



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Rolling out a Corporate Branch Manager Platform

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Agenda

1. Genesis of New Structure
2. Applicable IIROC Rules
3. Advantages
4. Disadvantages
5. Best Practices

Corporate Branch Managers



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1. Genesis of New Structure

- Trend towards designating branch managers for a branch office who is not normally present at the office
- Generally head office branch managers do not have a book of business (although they can)
- Historically remote supervision was only used for branches designated as “high risk”
- Now if a dealer has a strong supervisory system in place, remote supervision is being accepted by the regulators
- Intend to provide market participants with a more flexible, principle-based approach in determining how to best supervise branches

2. IIROC Rules

Retail Customer Account Supervision (Rule 2500)

- A resident Supervisor is in the best position to know the Registered Representatives in the office, know or meet many of the clients, understand local conditions and needs, facilitate business through the timely approval of new accounts and respond immediately to questions or problems.
- However, a Dealer Member may determine to what extent a resident Supervisor is necessary, considering factors such as:
 - The number of Registered Representatives in the location
 - The experience of Registered Representatives in the location
 - The nature of the business conducted in the location
 - The availability of a Supervisor or Supervisors in nearby locations
 - Other systems and controls mitigating the risk of remote supervision

New Opportunities and Challenges in Supervision

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Manulife Securities



Structure – Manulife Securities

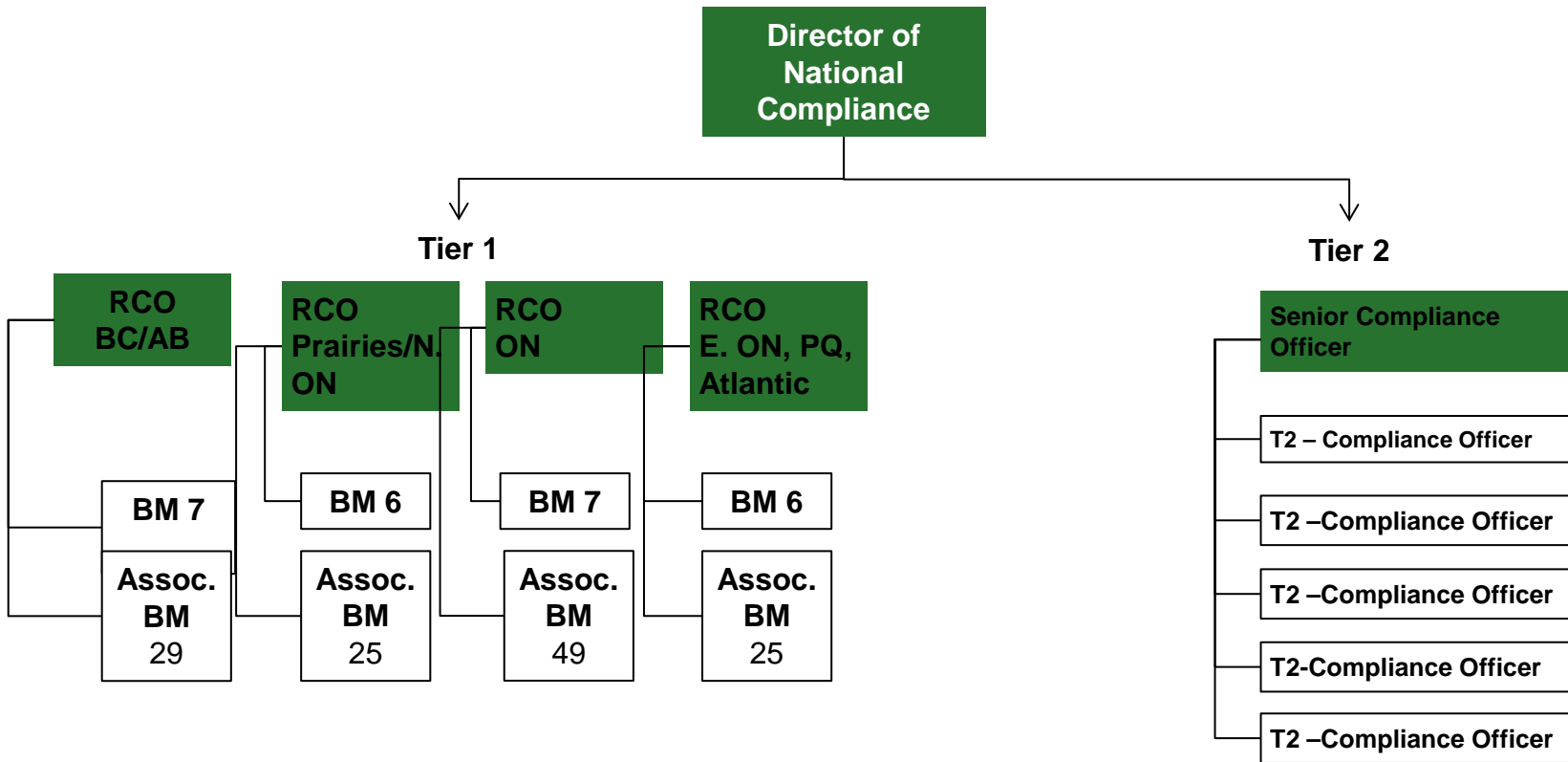
- Manulife Securities Investment Services Inc.
 - MFDA Dealer Member
 - AMF registered in Quebec
 - Nominee and client name account

- Manulife Securities Incorporated
 - IIROC Dealer Member
 - Nominee and Client Name Accounts
 - Options, Fee Based, Managed Accounts
 - New issues

Supervisory Structure for Tier I

- Over 1300 IIROC/MFDA advisors.
- Over 650 locations.
- Corporate Branch Managers : Employee Branch Managers who supervise a number of branches cover geographic regions.
- Associate Branch Managers: Employed by the branch that they supervise. May be an Advisor with a book of business or an employee dedicated to the BM role.
- Regional Compliance Officers: Responsible for the management of all BMs.

Org Chart for Tier I and Tier II



Branch Managers

- The Branch Manager is responsible for the primary level of supervision overseeing all Branch and advisor activities
- The Branch Manager is responsible for fostering and reinforcing an environment that promotes compliant business practices.
- The Branch Manager is responsible to ensure that the business is being conducted within the bounds of ethical conduct.
- Day to Day Tier One Supervision (MFDA and IIROC)
- Key day-to-day contact for Advisors
- Identify and escalate any areas of non compliance
- Act as an escalation point for complaints and participate in complaint investigation and resolution process as required
- Problem-solve and deal with compliance issues as identified including appropriate resolution and/or appropriate escalation to supervisor
- Review and approve new accounts and material changes to existing accounts
- Support Regional Compliance Officers

Regional Compliance Officers

- Senior Technical Expert on Compliance
- Assists in investigations and compliance reviews
- Provides regular updates on the state of compliance within their region
- Works with Business Development on compliance reviews of new advisors
- Disciplinary actions from compliance reviews
- Compliance training for employee and non employee Branch Managers
- Delivery of compliance training and education to advisor within their territory at meeting, events and seminars
- Review, interpret and comment on the impact of local regulatory bulletins, rulings and policy updates for the dealership and advisors under the jurisdiction of the regulatory body. Provide input and recommendations for dealer policy and procedures

HollisWealth

National Business Supervision

December 6, 2016

Steven Elliott, Director

Structure

1. HollisWealth (A Division of Scotia Capital Inc.)

- IIROC Dealer Member
- Registered in Quebec with AMF as Financial Planning Firm
- Nominee name accounts only
- Account types include:
 - cash accounts
 - margin accounts
 - options accounts
 - fee-based accounts
 - managed accounts (i.e. Portfolio Managers)

Structure

2. HollisWealth Advisory Services Inc.

- MFDA Dealer Member (not registered in Quebec)
- Registered Provincially as an Insurance Agency
- Nominee and client name accounts

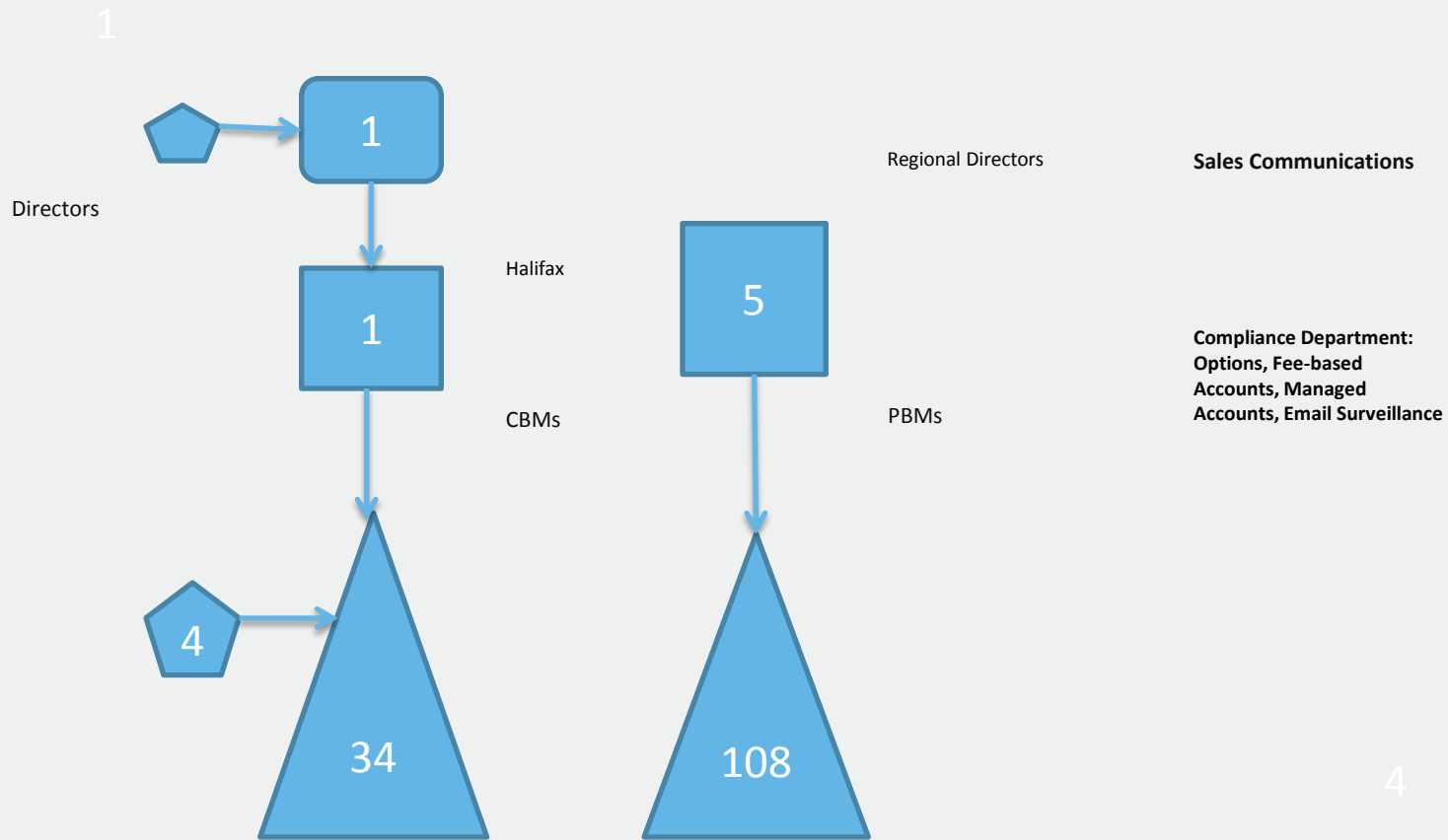
3. HollisWealth Insurance Agency Ltd.

- Registered Provincially as an Insurance Agency
- Registered in Quebec with AMF as Firm in the insurance of persons, financial planning and group insurance

Structure

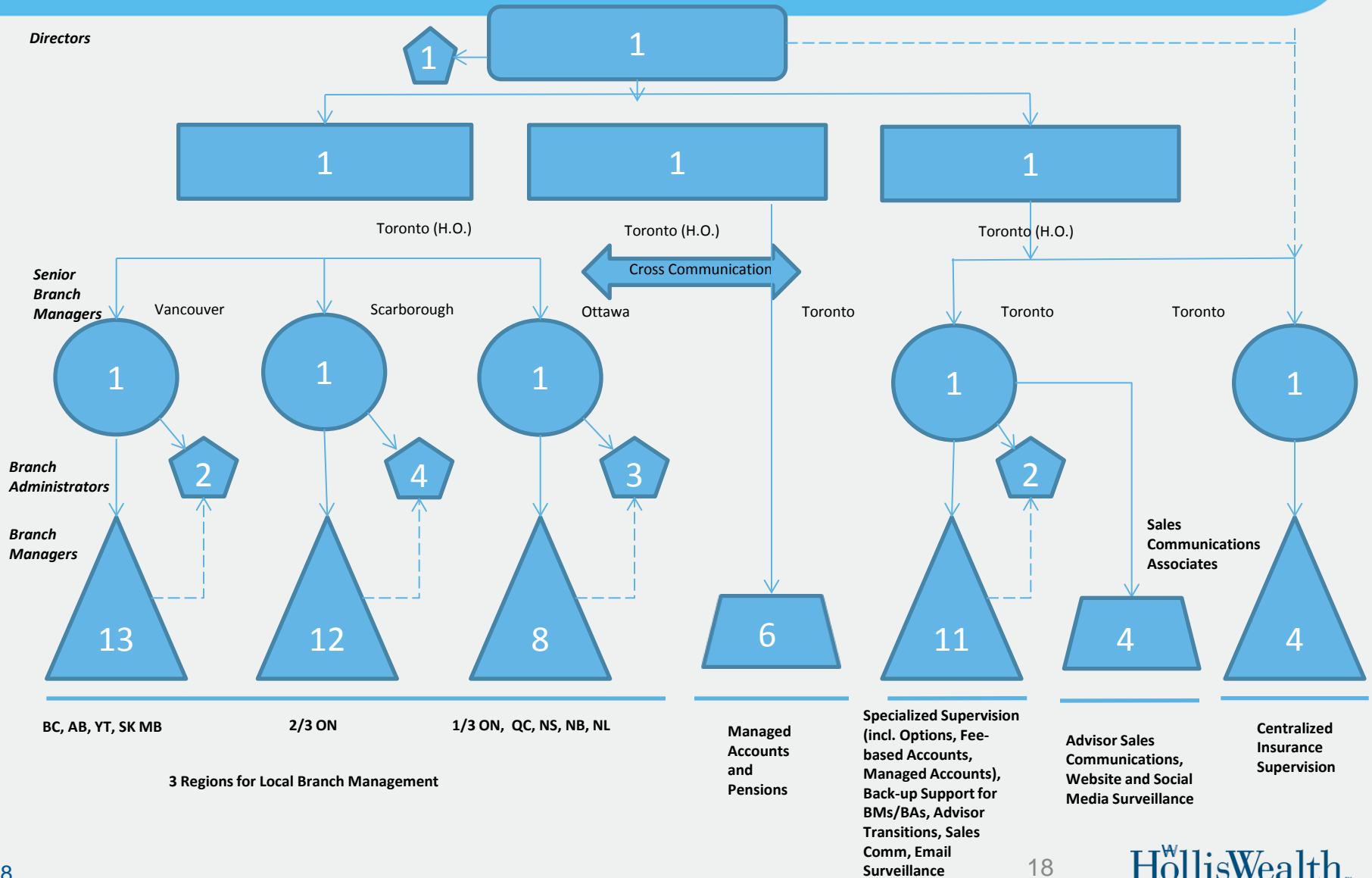
- 735 IIROC/MFDA Advisors and 180 Insurance Agents across Canada (not including Associates or Assistants).
- 372 locations (not including insurance)... to be reviewed min. 2x per year.
- Account types include: cash, fee-based, margin, options, managed
- Approved an average of 5,000 accounts per month over the last 12 months.
- Updated more than 15,000 accounts last month.
- Reviewed more than 430,000 trades per month over the last 12 months.

Supervision Structure (October 2015)



National Business Supervision and Regulatory Initiatives

Corporate Branch Management Structure



Tools and Process

- Portfolio Aid
- Adobe Pro – Electronic Signature
- Fax to Email
- Dataphile- E Account Approval
- Monthly Calls
- Review of work volumes twice a year
- Annual training for Employee and Associate
- Centralization of Files and Records
- Annual Branch Visitation Program

Systems & Support

1. Dataphile – Client database and trading platform
2. FastApps – Account opening and updates
3. Portfolio Aid – Trade supervision and inquiry management
4. Sungard – Social media reviews and record-keeping
5. SQWatcher – Change supervision of internet sites
6. Internal Database for Sales Communication Files – Tracking and reporting
7. Cision – News clippings
8. Central Calendar – Tracking of location reviews

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1. Weekly newsletters
 2. Monthly Advisor teleconferences
 3. Semi-annual location reviews
 4. Annual Advisor conferences
 5. Annual Branch Administrator conferences
 6. On-site visits by NBS management team

3. Advantages

Reduced Conflicts of Interest

- Branch managers are non-producing and so do not have their own books of business
- Not generating commission
- There is no incentive to “rubber stamp” KYC’s, account opening documentation
- Unlikely to have a personal relationship with the advisor and/or clients

3. Advantages

Consistency in Supervision

- Allows the BM's to supervise consistently
- Advisors will be treated the same across the board
- Less opportunity for inconsistent supervision and/or practices
- Training is made easier – train the BM's all at once and then roll out the practices across the dealer
- Centralized office with compliance manuals, policies and staff on site to assist BM's

3. Advantages

Incentive to Execute Supervision

- The BM is not focused on his/her own book so he/she has time and incentive to supervise others
- Trained for the specific job
- Have a “compliance lens” as opposed to a “producing lens”

Cost Effective

- BM generates salary only (no commission)
- Advisors are focused on producing

4. Disadvantages

- **Timeliness of approvals**
 - On site branch manager more likely to sign off on forms quickly
- **Registration**
 - Branch managers must be registered across the country if they are responding to multiple jurisdictions or dealing with branches that respond to multiple jurisdictions

4. Disadvantages

- **Storage of files**
 - Records used to be kept at the branch
 - Must implement a centralized compliance database
- **Branch Manager Familiarity**
 - Less likely to have familiarity with the advisors, clients and their needs

5. Best Practices

- Overall supervisory framework must be strong
- Records should clearly document who is responsible for what roles
 - Example: some members may propose having Tier 1 trade reviews and new account approvals done remotely, but may still assign staff on-site at the branch location to report complaints to head office
- Schedule branch review programs and periodic visits
- Consider processes, tools, systems and documents used for remote supervisory activity
- Remote supervisors must have same access to information and documentation that are available to on-site branch manager

5. Best Practices

- MFDA requires a firm to provide the following information when applying for remote supervision:
 - organizational chart that sets out all branch and sub-branch locations; identifies all locations where remote supervision is proposed; sets out the number of Approved Persons and total assets under administration at the location(s) where remote supervision would be conducted; and identifies the supervisory staff assigned to Tier 1 or Tier 2 supervision of locations that would be subject to remote supervision.
 - analysis of resources required to implement the remote supervision structure that identifies any additional staff to be hired and the average volume of trades or other supervisory activity for each remote supervisor;
 - description of the activities of the remote supervisors;
 - description of the supervisory visits which includes an explanation of the Member's risk-based cycle, risk criteria and number of locations within each cycle; and
 - description of the systems and tools used to perform remote supervision.

Advantages

Employee Branch Manager	Associate Branch Manager
Employee of the dealer	On site –easy access for advisors
Compliance Professional	Strong relationships with advisors
Consistency in practice	May have understanding
Training by dealer	
No conflict of interest	
100% of time on Supervision	
Consistent vacation coverage	

Disadvantages

Corporate Branch Manager	Associate Branch Manager
Ability to build relationships with advisors	Possible Conflict of Interest when employed by branch business owner
Multiple priorities	Lack of networking ability with other BMs
Turnover	Distracted when servicing a book of business
	May not be up to date on regulatory changes