



OSC KYC Sweep & New Review Procedure of Calling Investors

The Ontario Securities Commission (OSC) announced in June 2012 that it will be conducting a targeted review (sweep) of a sample of registered dealers and advisers to assess their compliance with know-your-client (KYC), know-your-product (KYP) and suitability obligations. The OSC is implementing its new review procedure of calling investors as a part of this sweep and all of its routine compliance reviews going forward.

This new procedure has raised the question of how to appropriately communicate to your clients a possible call from the regulator. Firms will likely vary in terms of their preferred communication approach, however below are some approaches that firms may consider.

A. Communication to Clients During an OSC Audit

If your firm is a part of a targeted review, you may be provided the names of clients the OSC plans to contact, prior to the OSC representative making contact.

1) Relationship Manager contacts client directly by phone to advise them of the potential call from the OSC. Some key messages in your client contact may include:

- Our firm is regulated by the OSC. Part of the OSC's role is to conduct regular compliance reviews to ensure firms are complying with Ontario securities law. Our firm feels that this is very important for investor protection and is supportive of this process.
- Our firm is currently undergoing a routine OSC audit. Staff of the OSC may contact you in the normal course of this audit to verify the accuracy of information provided to OSC staff about the firm's relationship with its clients.
- This is a new procedure that is being implemented with all firms undergoing a compliance review.
- The OSC may ask you a variety of questions regarding your relationship with the firm to confirm the accuracy of the information that is on file. For example, they may ask questions regarding your investment objectives and risk tolerance.
- Any information provided will be kept confidential between the OSC and our firm.

Firms are reminded that the suggestions and information provided above are not exhaustive nor should they be construed or relied upon as legal advice.

- Your participation in this process is entirely voluntary.

2) Written Communication to Clients – Via Email or Mail

Some firms may prefer to send a short note to clients in writing. This may be less time consuming, however, does not allow the individual dialogue with the client. The key messages to note in any written message to clients may be as noted in paragraph (1). You may wish to include the OSC FAQ document referenced below in your email or letter.

Receiving Calls from the OSC Regarding Compliance Reviews of Securities Dealers and Advisers FAQs:
http://www.osc.gov.on.ca/documents/en/Dealers/eb_20120604_faq-receiving-calls.pdf

B. Communication to Clients on Ongoing Basis

- **Relationship Disclosure Information (RDI)** - Firms may consider including a short notice to clients about the new OSC review procedure of calling investors as part of their RDI process under section 14.2 of NI 31-103.
- **Privacy/Confidentiality Policies** – Firms should review their Investment Management Agreements (IMA) and Privacy Policies to include a reference to third party access to information. Sample wording from the PMAC IMA Template is as follows:

“The Manager shall treat all information provided to it by the Client regarding the Client and the Account as confidential, and will not disclose such information to third parties unless the Client has provided written permission to the Manager to do so, or unless the Manager is, by law, required or permitted to do so.”

- **Firm Registration** - In your IMA, website or other client communication, you may reference the securities commissions with whom you are registered. You may wish to add a specific reference to access to client records and potential client contact by the OSC. For example:

“Our firm is regulated by the OSC (list other securities commission(s), if applicable)). Part of the OSC's role is to conduct regular compliance reviews (or audits) to ensure firms are following Ontario securities law. This is a very important process and helps protect Ontario investors. During the course of a regular audit, staff of the OSC may require access to our client files. Staff may also contact you by phone to verify the accuracy of information given to OSC staff about our firm's relationship with its clients. We will make every effort to contact you prior to receiving a call from the OSC. Your participation in this review process is voluntary.”

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