

The background of the slide features a low-angle, upward-looking perspective of several modern skyscrapers. The buildings are constructed with glass and steel, reflecting the sky. A warm, golden-orange light from a low sun on the right side of the frame creates a strong lens flare and illuminates the scene, casting long shadows and highlighting the architectural details of the buildings.


Client Focused Reforms Seminar McMillan LLP

| With Panelists Leila Rafi and Jennie Baek
Moderated by Michael Burns

| May 6, 2021

A close-up photograph of two hands shaking in a firm grip, symbolizing agreement or partnership. The hands are positioned in the center of the frame, with the fingers interlaced. The background is a blurred office setting with large windows and modern architecture. A semi-transparent dark grey horizontal band is overlaid across the middle of the image, serving as a background for the title text.

Introductions



Overview: New Conflicts of Interest Requirements

Overview

- Client Focused Reforms (“CFRs”) were introduced to improve the relationship between clients and registrants, and ensure registered firms and individuals are putting the **best interests of their clients first**.
- The CFRs apply to registered portfolio managers, dealers and their registered representatives.
- Phase I - Conflicts-related amendments take effect on **June 30, 2021**.
- Phase II - Remaining amendments (e.g. KYP) take effect on **December 31, 2021**.
- **What has changed?**
 - Expanded definition of conflicts of interest.
 - Clearer expectations of what to do when faced with a potential conflict.
 - Disclosure obligations.

Phase I - Conflicts of Interest

- A conflict of interest includes any circumstance where:
 - the interests of different parties, such as the interests of a client and those of a registrant, are inconsistent or divergent
 - a registrant may be influenced to put their own interests ahead of their client's interests, or
 - monetary or non-monetary benefits available to a registrant, or potential detriments to which a registrant may be subject, may compromise the trust that a reasonable client has in their registrant.
- Guiding Principle – the interests of the Client must always come first.



Q1

Broadly speaking, what are registrants expected to do under Phase I of the CFRs?

Three wooden blocks with question marks are arranged in a row on a dark, reflective surface. The blocks are light-colored wood, and the question marks are dark. The background is a blurred blue-grey gradient.

Q2

What are some examples of conflicts that would be considered material?

Examples of Material Conflicts of Interests

- The CSA has noted the following types of conflicts are **almost always material**:
 - i. Referral arrangements
 - ii. Sales practices, compensation arrangements and incentive practices
 - iii. Conflicts of interest in fee-based accounts
 - iv. Conflicts between clients
 - v. Registrants having full control or authority over the finances of a client
 - vi. Proprietary products or mixed shelves
 - vii. Outside Business Activities
 - viii. Purchasing assets from a client outside the normal course of business

Q3

What does it mean to address a material conflict in a client's best interest? What is the practical effect of this change?

Three wooden blocks with question marks are arranged in a row on a dark surface. The blocks are light-colored wood and have large, dark question marks on their faces. They are slightly out of focus, with the one in the foreground being sharper.

Q4

Let's talk about record-keeping updates in
the amendments...

Q5

How much client disclosure is sufficient?



Q6

Is disclosure or consent enough to address
a potential conflict of interest?



Q7

For firms that only trade in, or recommend, proprietary products, what are some controls that can be used to ensure conflicts are addressed in the client's best interest?

The background of the slide features a close-up, shallow depth-of-field photograph of three light-colored wooden blocks, each marked with a large black question mark. The blocks are arranged in a slightly receding line on a dark, reflective surface. A semi-transparent dark blue horizontal band is overlaid across the middle of the image, serving as a backdrop for the text.

Q8

What should firms be doing with the results of their periodic due diligence?

The background of the slide features a close-up, shallow depth-of-field photograph of three light-colored wooden blocks arranged in a row on a dark, reflective surface. Each block has a large, dark question mark printed on its side. The lighting is soft, creating subtle highlights and shadows on the blocks and the surface they rest on.

Q9

How do the amendments affect referral arrangements?

Q10

If a firm permits a registered individual to purchase assets from clients outside the normal course of business, how should it address the potential for conflicts?

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Q11

What are my disclosure obligations under the amendments?

Q12

What sort of outside business activities
require approval by the Chief Compliance
Officer (CCO)?

Q13

What should the CCO consider when deciding whether to approve outside business activities?

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Q14

What should a firm do between now and June 30?

Tips and Tricks

- Consider the amendments, don't just conduct business as usual
- Put communication first and have the right people available to answer questions internally
- Think about compensation structure
- Leverage your existing documents and processes
- Look ahead as more amendments are coming

Questions/Comments?



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