

PANELLISTS

(left to right)



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COMPLIANCE OUTLOOK is moderated by Philip Porado.

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BACK STOP

A firm's back-office operations are more than a processing centre.

This month, we asked our experts: *How does, or should, a back-office system help you do compliance in the following areas—product due diligence; the new rep application process; registered rep licensing and jurisdiction issues; and dealer statement processing?*

Heather Phillips | As required by a 2006 Mutual Fund Dealers Association audit, our firm reconfigured the back office to look at investment objectives, as well as risk and time horizons for all products. Our back-office system allows us to manage all new products for the approval process, which are approved upon request from our sales force, but the back office holds all of the new products. They are risk-rated and then we put them into one of five possible investment objectives—safety, income, growth, balanced or aggressive. Risk tolerance comes from the prospectus for mutual funds: The source is Fundata Canada (the risk ratio is downloaded from the data file) and the source of fund names is FundSERV.

Vipool Desai | The back office can be of tremendous value to a compliance officer, as this department effectively touches every piece of business undertaken by the firm. However, to effectively utilize this department's potential, a compliance officer must be familiar with its processes and must provide its

personnel with clear guidance on matters that should be referred to compliance. For example, the back office may be able to identify instances where a representative is conducting business in a province in which he or she isn't registered, or in products the representative is not registered to sell.

HP | We have a review screen that sources differences between our back office and the newest information from our data providers. This screen is reviewed regularly. Our president, who is also our chief compliance officer, signs off on all products before their status gets changed in the back office. The product table matches up with the client's investment objectives, risk tolerance and time horizon per plan, which makes it easy to determine suitability of a product or group of products.

VD | In today's environment, the back office can be used to identify potential systematic compliance or control weaknesses, as well as to identify possible regulatory or compliance violations. For example, an increasing volume of returned mail may suggest that contact information on the New Client Account Form is not being updated in a timely manner.

HP | Our branch managers have an application package that they review with their prospective reps. Once completed, it comes to the

compliance and registration department for processing on the National Registration Database, as well as for background and reference checks. We enter all information into the back office such as provincial licences held, and education obtained for selling specific products. Once a rep is licensed, he or she is able to meet with clients and get rolling.

VD | Back offices can also help with financial product due diligence by providing feedback on the helpfulness of a product manufacturer's ongoing support and on systematic trade execution and settlement issues related to the product.

HP | To mitigate risk, we have specific education requirements for products, over and above what's mandated by the securities act. If a product is marked as a hedge fund and a rep does not have the proper education, he or she will not be flagged as eligible to sell that product. If the rep picks a hedge fund by mistake, the system will stop him or her from adding it to the client's file to make a purchase. Most products require a mutual fund licence, so every rep has product flagged to sell in the back office. Products and provincial licensing are linked to the rep table in the **continued on page 52**

PANELLISTS



continued from page 51 back-office system, which allows both the rep and the compliance department to lessen the risk of mistakes. Further, knowing where your reps can do business or where they are doing business is helpful when performing branch reviews.

VD | Since the back-office function handles trade and client information processing, the reconciliation of trade and client information and trade settlement, it is also the department that typically handles client service matters relating to incorrect or missing account statements or trade confirmations. Hence, it is in a good position to identify systematic control weaknesses. The compliance department should liaise regularly

with back-office personnel to identify such issues.

HP | We process dealer statements in-house, in both English and French, and do a dry run in early autumn to ensure the configuration of the statements is correct. Any changes to design, wording, contents, disclosures, or cover letters are addressed at that time. We have a select few reps who help proofread the statements and double-check the data to ensure accuracy. Our firm also has a return mail flag so that head office and the reps can identify clients whose statements came back to either the dealer's office (where head office would flag the client) or from the rep's office. Head office staff and reps then work

together to locate those clients.

VD | The back office also serves a critical role in the application process for new reps. Client transfers can be a firm's greatest barrier to recruiting experienced representatives. Often, representatives assume they'll be out of business for several weeks or months until their accounts are set up. However, the back office, with the compliance department's assistance, can help accelerate this process. For example, compliance can establish the minimum information required to begin operating an account and work with the back office on a strategy for downloading this information onto the firm's account management and review systems. **AE** **PORADO**