

## Annual Compliance Report to Board of Directors

[DATE]

Dear Sirs and Mesdames:

As you are aware, National Instrument 31-103 - *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”) requires that I, as Chief Compliance Officer, provide [FIRM]’s (the “**Company**”) Board of Directors with an annual report concerning my assessment of compliance by the Company, and individuals acting on its behalf, with securities legislation. This report will address:

- the review of the operation of the policies and procedures of the Company;
- material changes made to those policies and procedures since the date of the last report; and
- every substantial compliance matter that occurred since the date of the last report.

It is my hope that this report will help the Board have a better understanding of the overall compliance program, create visibility for the compliance function, provide a focus on compliance matters and foster formality and discipline over compliance to keep policies and procedures current and relevant.

This report is broken down into the following sections:

**I. Background**

- Description of how the Company’s compliance program is administered: organization, roles and responsibilities.

**II. Monitoring and Testing**

- Identification of areas for which monitoring and testing activities were conducted as part of the annual review.
- Description of the nature and extent of monitoring and testing activities undertaken.
- Conclusions.

**III. Regulators and Regulatory Updates**

- Regulatory audits of the Company’s compliance regime.
- Regulatory developments.

**IV. Other Issues**

- Future compliance program initiatives.
- Client complaints.
- Service provider review.

I would be pleased to discuss the contents of this report and to answer any questions you may have.

Sincerely,

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[NAME]

Chief Compliance Officer



## BACKGROUND

The Company has created policies and procedures that establish a system of controls and supervision sufficient to provide reasonable assurance that the Company, and each individual acting on its behalf, complies with securities legislation, and to manage the risks associated with its business in accordance with prudent business practices.

The compliance function in the Company is administered by [•], the Chief Compliance Officer (the “CCO”) and [•], the Ultimate Designated Person (the “UDP”). **[To be altered slightly if firm has the same individual serve as both CCO and UDP]**

The UDP’s role is to supervise the activities of the Company that are directed toward ensuring compliance with securities legislation and promote compliance within the Company. The CCO is required to establish and maintain compliance policies and procedures, monitor and assess compliance, report non-compliance to the UDP and annually report on compliance matters to the Company's board of directors.

**[Include information on other compliance personnel and their roles if applicable, such as a Compliance Department or advising representatives who are responsible for supervising associate advising representatives]**



## MONITORING AND TESTING

### (a) Identification Of Areas For Which Monitoring And Testing Activities Were Conducted

Over the past year, monitoring and testing was conducted on the following critical areas of the Company's operation:

**[Sample list follows. Items may be added or removed depending on Company operations]**

- i. portfolio management, including the allocation of investment opportunities among clients and the consistency of portfolios with clients' investment objectives, disclosures and regulatory restrictions;
- ii. trading practices, including satisfying the duty of best execution and the use of client commissions to obtain execution research or other services (soft dollars);
- iii. proprietary trading and personal trading by employees;
- iv. valuing client holdings and assessing fees;
- v. the accuracy of disclosures made to investors, clients and regulators, including account statements and advertisements and marketing;
- vi. conflicts of interest;
- vii. anti-money laundering obligations, including proper identification collection, risk assessment and training;
- viii. accuracy of books and records;
- ix. complaints;
- x. third party service providers;
- xi. conducting proper know-your-client, know-your-product & suitability determinations;
- xii. protecting the privacy of client records and information; and
- xiii. business continuity in the event of a significant business disruption.

In general, when reviewing compliance policies and procedures with respect to the critical areas above, the following questions were considered:

1. Do the Company's procedures match its written policies and procedures manual?
2. Do the Company's policies and procedures meet legislative and regulatory requirements?
3. Do the Company's policies and procedures ensure the Company is acting in the best interest of the client?
4. Are there any gaps in the compliance regime such that the Company may be at risk?
5. Is the Company accurately documenting its compliance operations to prove it is compliant?

(b) Description of the nature and extent of monitoring and testing activities undertaken

The monitoring and testing undertaken for each category of compliance is set forth below.

**[Provide a brief explanation of testing methods used for the various critical areas listed in (a) above. Sample methods may include, but are not limited to:**

- **training and testing employees;**
- **hiring auditors and/or consultants to perform a mock audit; and/or**
- **performing spot checks on items]**

(c) Conclusions

**[Provide your conclusions with respect to the strengths and weaknesses of your current compliance regime and any plans to correct any deficiencies that may have been identified]**



**REGULATORS AND REGULATORY UPDATES**(a) Audits of the Company's Compliance Resources

**[Provide a summary of any audits conducted by regulators, such as the OSC or FINTRAC. Include:**

- **a general description of the audit, such as whether it was a full audit or a focused review;**
- **significant deficiencies identified by the auditors;**
- **actions taken by the Company to correct the deficiencies; and**
- **penalties, fines and/or terms imposed on the Company, if any]**

(b) Regulatory Developments

**[Provide a brief description of any regulatory developments over the past year that are relevant to the Company's operations. Samples below are for developments that occurred in 2011.]**

**(1) Amendments to NI 31-103**

On July 11, 2011, amendments came into effect for National Instrument 31-103 and its companion policy, as well as National Instrument 33-109 – *Registration Information* and its companion policy, and the forms that accompany the two instruments (collectively, the "Amendments").

While some of the Amendments are simply clarification of existing requirements or technical amendments, other Amendments introduced new substantive requirements and restrictions on registrants.

We have worked with our legal counsel to update our compliance manual to reflect these changes.

**(2) CSA Staff Notice 31-325 – Marketing Practices of Portfolio Managers**

On July 8, 2011, the Canadian Securities Administrators (the "CSA") published CSA Staff Notice 31-325 *Marketing Practices of Portfolio Managers*. The Staff Notice described the results of the focused reviews of the marketing practices of firms registered as portfolio manager and highlights guidance that the CSA believes should be followed.

Since the release of this Staff Notice, we have reviewed all advertisements, marketing materials and website changes to ensure they follow these guidelines. We have also worked with our legal counsel to update our compliance manual to reflect these changes.



## OTHER ISSUES

(a) Future Compliance Program Initiatives

**[List any projects related to compliance that are planned for the following year, such as:**

- **Compliance manual updates;**
- **New training programs for employees;**
- **Recruitment of new compliance-related employees; and**
- **Changes in registration for the firm or individuals.]**

(b) Client Concerns and Complaints

**[Summarize any concerns or complaints from Clients regarding the Company's advising and/or trading activities or other compliance-related issues. Include a description of any settlements made. If there were no complaints, then mention this.]**

(c) Service Provider Review

**[You should provide a brief summary of your service provider oversight program. If you found any service providers are delivering poor services for duties that the Company outsourced (e.g. custodian delivering delayed or incorrect client account statements to clients), then mention this here and any actions to be taken in the future if poor service continues, such as replacement of the service provider.]**

(d) Miscellaneous

**[List any other compliance issues that were not covered by the above sections.]**

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