

British Columbia Securities Commission (BCSC) 2025 annual compliance report card

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The British Columbia Securities Commission (the Commission or the BCSC) recently published its annual compliance report, noting top deficiencies, outlining the Commission's approach to non-compliance, and ending with a review of the regulatory landscape for 2025 in [Staff Notice 31-368 Client Focused Reforms: Review of Registrants' Know Your Client, Know Your Product and Suitability Determination Practices and Additional Guidance](#) (the Report).

For 2025, the BCSC served as the principal regulator for 86 adviser firms (including investment fund managers, or IFMs) and 71 dealer firms (including exempt market dealers, or EMDs), along with two restricted dealers operating crypto trading platforms and six crowdfunding portals relying on registration exemptions.

The overall deficiency rankings hold few surprises. Deficiencies identified across 21 compliance reviews conducted over the year ranked as follows:

- Policies and procedures manuals: first place (representing 19 per cent of identified deficiencies);
- Know your client (KYC) and suitability: second place;
- Client reporting: third place;
- Disclosure: fourth place; and
- Disaster recovery and business continuity: tied for fifth place with know your product (KYP).

However, the BCSC's specific commentary on some of these deficiencies warrants close attention.

Policies and Procedures Manual (PPM)

In the Report, the BCSC comments that, as in previous years, it continued to find incomplete, poorly implemented or inadequate PPMs, including deficiencies in KYP and KYC processes, suitability assessments, and conflict of interest identification (read the article, [Under the bright lights: CSA & CIRO illuminate enhanced expectations in phase 2 client-focused reform sweep.](#))

Of particular interest is the comment that certain PPMs lack detailed operational procedures such as clear definitions of registrable activities. In our experience, such a delineation is not typically found in a PPM, and we expect this is due, in part, to the fact that the regulators themselves have not provided a detailed breakdown of registrable versus non-registrable activities to the industry. While there is a commonly understood appreciation of the general parameters of registrable activities, several important unarticulated nuances remain. If the regulators expect firms to include this information in their PPMs, it would be helpful to have the benefit of the regulators' own guidance on activities that are registrable.

The Report mentions that deficient PPMs result in insufficient guidance for staff to follow, weakening the internal controls that registered firms are expected to have in place.

With the Client Focused Reforms (CFRs) in effect since Dec. 2021, the Report highlights several recurring compliance pressure points:

- **KYC:** The Report states that firms should not simply add a "risk profile" field to KYC forms without also considering the corresponding impact to the firm's client risk assessment process. The Report also states that the assessment of a client's risk tolerance and risk capacity to form the overall risk profile will likely involve some degree of judgment and it is important to document the rationale for this conclusion;
- **KYP:** The Report notes that some firms have not established policies and procedures to explain how all the various KYP tasks work together as a process, though it is not entirely clear what the BCSC means by this. KYP policies should be supported by documentation to evidence what KYP steps took place. The Report reminds firms to demonstrate that they evaluated all relevant CFR aspects when making a suitability determination, including consideration of alternative products, the impact of costs and a concentration assessment. Discrepancies between a client's financial information in suitability assessments and the client's financial information collected in the client's KYC form may lead the BCSC to question the reliability and accuracy of the information that was used to render the suitability determination;
- **Conflicts of interest and corporate titles:** Previous Canadian Securities Administrators (CSA) publications address compliance with conflicts of interest and the use of corporate titles. Firms with any questions or concerns around charging different fees, the use of corporate titles and referrals that meet the new, broader definition of referral arrangement under the CFRs, thus triggering the referral arrangement requirements and related disclosure obligations should revisit the guidance. The Report states that characterizing an agreement as a service arrangement, shared service arrangement or partners agreement will not absolve a firm of the referral arrangement-related requirements if the agreement confers a monetary or non-monetary benefit;
- **Accountability for compliance leaders:** Chief compliance officers (CCOs) and ultimate designated persons (UDPs) should note that the BCSC views a failure by a firm to have adopted policies and processes reflective of the CFRs as raising competency questions regarding the CCO and UDP of such firms;
- **Operationalizing compliance:** The Report continues the recent regulatory guidance highlighting the importance of PPMs articulating roles and responsibilities, maintaining consistency between documented processes and

actual practice and documenting compliance. PPMs that contain out-of-date or inaccurate regulatory or jurisdictional references can indicate broader deficiencies in governance, oversight and the design and execution of an effective compliance system, including PPMs that quote verbatim from National Instrument 31-103 (**NI 31-103**) without having considered how to operationalize those requirements in the context of the registered firm's specific business model. The Report reiterates the importance of staff training on the firm's PPM; and

- **Business continuity planning:** The Report notes deficiencies in the existence and content of business continuity plans (BCP) and the roles and responsibilities assigned to BCP executors by the firm. The Report reminds firms that a BCP executor must be able to advise the firm's clients when business continuity is required and should ideally be familiar with the firm's systems, business and third-party service providers. This means that any BCP executor must be duly registered in the appropriate registration category and that the onus is on the firm to implement an appropriate BCP and is not a responsibility that can be delegated to the BCP executor and/or the regulators. Small firms or registered firms with key person risk may wish to revisit the [OSC's 2024 publication on BCPs](#) for additional background and guidance.

Use of AI by registrants

Other CSA members have signalled their intent to review firms for their AI use and the Report provides reminders about the considerations that may arise when firms use AI. The use cases cited in the Report are using AI to do KYP research, using chatbots to provide DIY investors with information and using AI to enhance internal productivity.

The consultation and guidance issued by the CSA in 2024 regarding the Applicability of Canadian Securities Laws and the Use of AI in Capital Markets resulted in stakeholder feedback that the principles-based nature of securities law requirements means that new rules related to the use of AI are not needed, but that guidance in respect of the use of AI could be helpful.

The Report lists additional considerations for firms using AI, including:

- **Registration updates:** The adoption of AI might trigger the need to update a firm's registration information by filing a Form 33-109F5;
- **Misleading communications:** Firms are reminded of the prohibition on misleading communications with the concern here being the risk of "AI-washing" or overemphasizing the use of AI;
- **Requirement for human advice:** Dealers relying on the dealer without discretionary authority exemption in section 8.23 of NI 31-103 are cautioned that one of the conditions of relying on that exemption is that advice given by dealers "must be provided by the representative" and representatives are human beings. Quoting the Report: "In other words, this condition puts a natural limit on how much dealers can use AI when providing advice to clients;" and
- **KYP documentation:** The Report notes that the BCSC expects firms to document the use of AI for any part of the KYP process.

Read [BLG's analysis of the CSA guidance](#) on the applicability of Canadian securities laws and the use of AI in capital markets here.

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