



BC Notice 2019/01

**Expiry of BC Instrument 32-517 *Exemption from Dealer Registration Requirement for Trades in Securities of Mortgage Investment Entities* and registration requirements for persons relying on BCI 32-517 on February 15, 2019**

**Frequently Asked Questions**

**Background**

On February 15, 2019, the dealer registration exemption in section 8 of BC Instrument 32-517 *Exemption from Dealer Registration Requirement for Trades in Securities of Mortgage Investment Entities* (BCI 32-517) will expire. The British Columbia Securities Commission (BCSC) staff have compiled these frequently asked questions (the FAQs) and their responses from the inquiries staff received concerning BCI 32-517 and the registration requirements for persons trading or intending to trade securities of mortgage investment entities (MIEs) in BC.

In this notice: **NI 31-103** means National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, **EMD** means exempt market dealer, **IFM** means investment fund manager, **CCO** means chief compliance officer, **UDP** means ultimate designate person and **DR** means dealing representative.

NI 31-103 and its Companion Policy 31-103CP can be found under the “Documents” tab at [https://www.bsc.bc.ca/Securities\\_Law/Policies/Policy3/Group/?group=31%20103](https://www.bsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=31%20103).

**FREQUENTLY ASKED QUESTIONS**

QUESTION	ANSWER
<b>1. Transition for persons relying on BCI 32-517</b>	
The dealer registration exemption in section 8 of BCI 32-517 ( <b>the registration exemption</b> ) will expire on February 15, 2019, subject to certain transitions ( <b>the transitional relief</b> ) for persons complying with	Transitional relief will only be available for a person that satisfies the following conditions: (a) By February 15, 2019, for that person, the BCSC has received: (i) Where the person is not an individual, a substantially complete 33-109F6 <i>Firm Registration</i> (including fees) seeking registration as a dealer, or (ii) Where the person is an individual, a substantially complete Form 33-109F4 <i>Registration of Individuals and</i>

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<p>the registration exemption. BCI 32-517 is set to fully expire on February 18, 2020.</p> <p>What transitional relief is available to market participants that trade in securities of a MIE in reliance of the registration exemption?</p> <p>Does the transitional relief apply automatically upon meeting the conditions or does one have to apply for the transitional relief?</p>	<p><i>Review of Permitted Individuals</i> (including fees) seeking registration in the category of a DR, in combination with an application referred to in (i);</p> <p>(b) The BCSC has not yet accepted or refused the person’s registration application referred to in subsection 9(a) of BCI 32-517;</p> <p>(c) On February 15, 2019, the person was relying on, and in compliance with, the registration exemption; and</p> <p>(d) The person is in compliance with the registration exemption.</p> <p>For persons that meet these conditions, they can continue to rely on the dealer registration exemption until February 18, 2020.</p> <p>The transitional relief applies automatically upon meeting the conditions.</p>
<p><b>BCI 31-103</b></p>	
<p><b>2. Firm size and multiple categories of registration</b></p>	
<p>What if a firm is only operated by one or two individuals? Is that firm expected to hire more individuals as part of their registration requirements?</p>	<p>An individual may register in multiple categories of registration where necessary. This is common for small firms operated by one or two individuals.</p>
<p><b>3. UDP</b></p>	
<p>What is a UDP of a firm expected to do?</p> <p>Where the applicant firm has a parent company, can a director of the parent company be the designated UDP of the registered firm?</p>	<p>See section 5.1 of NI 31-103 for the required duties of an UDP. Section 5.1 of Companion Policy 31-103CP provides guidance about the UDP’s functions.</p> <p>See subsections 11.2(2) and 11.2(3) of NI 31-103 for the requirements on designating a UDP for a registered firm. Section 11.2 of Companion Policy 31-103CP provides guidance on designating an UDP.</p>
<p><b>4. Registration, proficiency and ongoing business conduct requirements for a person trading or advising in prospectus exempt securities</b></p>	
<p>What are the registration, proficiency and ongoing business conduct</p>	<p>NI 31-103 sets out the registration requirements, exemptions from the requirement to register and ongoing registrant obligations. It also sets out minimum proficiency, financial, and</p>

QUESTION	ANSWER
requirements for a person trading or advising in prospectus exempt securities?	ongoing business conduct requirements.
<b>5. Registration application process and fees</b>	
<p>Where can I find the required forms for registration?</p> <p>What is the application process for firm registration?</p> <p>What is the application process for individual registration?</p>	<p>National Instrument 33-109 <i>Registration Information</i> (NI 33-109) sets out the information required for registration. The Appendices to NI 33-109 are the various forms related to registration. The link to NI 33-109 is:  <a href="https://www.bpsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=33%20109">https://www.bpsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=33%20109</a></p> <p>A firm seeking registration must be registered at the Corporate Registry in Victoria. The website of the Corporate Registry can be found at <a href="http://www.corporateonline.gov.bc.ca">www.corporateonline.gov.bc.ca</a>. The firm seeking registration must submit each of the following to the regulator:</p> <p>(a) A completed Form 33-109F6 <i>Firm Registration</i> (the F6) and the required supporting documents by email to: <a href="mailto:registration@bpsc.bc.ca">registration@bpsc.bc.ca</a>. The link to the F6 is <a href="https://www.bpsc.bc.ca/33-109F6_[F]_06122018/">https://www.bpsc.bc.ca/33-109F6_[F]_06122018/</a></p> <p>(b) For each business location of the applicant in the local jurisdiction, other than the applicant's head office, a completed Form 33-109F3 <i>Business Locations Other than Head Office</i> in accordance with National Instrument 31-102 <i>National Registration Database</i> (NI 31-102)</p> <p>The link to NI 31-102 is:  <a href="https://www.bpsc.bc.ca/Securities_Law/Policies/Policy3/PDF/31-102_NI_updated_January_17_2014/">https://www.bpsc.bc.ca/Securities_Law/Policies/Policy3/PDF/31-102_NI_updated_January_17_2014/</a></p> <p>A registered firm must designate an individual who is registered in the category of CCO. A registered firm must also designate an individual who is registered in the category of UDP. The responsibilities of the CCO and UDP can be found at Part 5 of NI 31-103.</p> <p>Part 2 of NI 31-103 describes the categories of registration for individuals, and the functions each type of registered individual may provide on behalf of the registered firm. An individual who applies for registration must submit a completed Form 33-109F4 <i>Registration of Individuals and Review of Permitted Individuals</i> in accordance with NI 31-102. The link to the form is: <a href="https://www.bpsc.bc.ca/33-109F4_[F]_110115/">https://www.bpsc.bc.ca/33-109F4_[F]_110115/</a></p>

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<p>What are the application fees?</p>	<p>At the time the registration application is filed, the individual who applies for registration as a DR or advising representative or a CCO must meet the <b>minimum proficiency</b> requirements set out in Part 3 of NI 31-103. For further questions, see the “Proficiency” section of the FAQs.</p> <p>Apart from the F6 filing, all other filings with respect to registration information under NI 33-109 are required to be submitted through the National Registration Database (NRD). NI 31-102 sets out the process in Part 3 for NRD submissions and in Part 4 for payment of fees through NRD.</p> <p>To enrol on NRD please visit: <a href="https://www.nrd-info.ca/">https://www.nrd-info.ca/</a></p> <p>Application fees effective December 30, 2018 are:</p> <ul style="list-style-type: none"> <li>• \$2500 for a firm application</li> <li>• \$350 for each dealing or advising representative application</li> </ul> <p>The fee schedule is set out in section 22 of the <i>Securities Regulations</i>. The link to the <i>Securities Regulations</i> is <a href="http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/free_side/58_196_97">http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/free_side/58_196_97</a></p>
<p><b>6. Categories of registration for MIEs</b></p>	
<p>What registration categories should firms and individuals previously relying on the registration exemption register in?</p> <p>Aside from the EMD category, are there other categories of registration that may apply to MIEs?</p>	<p>A firm that trades in the securities of a MIE will need to register in the category of EMD - see Part 7 of NI 31-103. An individual conducting this trading activity for the firm will need to register in the category of a DR - see Part 2 of NI 31-103.</p> <p>CSA Staff Notice 31-323 <i>Guidance Relating to Registration Obligations of Mortgage Investment Entities</i> (SN 31-323) provides guidance on the registration requirements that apply to MIEs pursuant to the requirements of NI 31-103. In particular, SN 31-323 provides guidance on when firms may need to register as IFMs or advisers with regards to MIEs. SN 31-323 also provides guidance on how the IFM registration requirement may differ between Alberta and other CSA jurisdictions.</p> <p>SN 31-323 can be found at <a href="https://www.bpsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=31%20323">https://www.bpsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=31%20323</a></p>

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<b>7. Insurance</b>	
<p>What are the insurance and bonding requirements for EMDs?</p> <p>Where can one obtain insurance or the global bonding required in Part 12 of NI 31-103?</p>	<p>Section 12.3 of NI 31-103 sets out the insurance requirements for a dealer. Appendix A to NI 31-103 sets out the bonding and insurance clauses that should be included in the dealer's insurance and bonding coverage.</p> <p>Certain insurance brokers or underwriters offer bonding and insurance coverage to securities dealers or advisers that include clauses set out in Appendix A to NI 31-103. Please conduct your own inquiries and due diligence on the insurance providers before obtaining the required coverage. We do not make recommendations on specific insurance brokers or underwriters.</p>
<b>8. Supporting Documents</b>	
<p>What documents would you require in support of the Form 33-109F6 <i>Firm Registration</i> (the F6)?</p>	<ul style="list-style-type: none"> <li>• Schedule B to the F6 – <i>Submission to jurisdiction and appointment of agent for service</i> for each jurisdiction where the firm is seeking registration</li> <li>• Schedule C to the F6 – Form 31-103F1 <i>Calculation of Excess Working Capital</i></li> <li>• Business plan</li> <li>• Policies and Procedures Manual</li> <li>• Client agreements (except Ontario)</li> <li>• Constatting documents</li> <li>• Organization chart</li> <li>• Ownership chart</li> <li>• Directors' resolution approving insurance</li> <li>• Audited financial statements (for further questions, see the "Audited Financial Statements" section of the FAQs)</li> <li>• Subordination agreement(s) (if any)</li> <li>• Letter of direction to auditors</li> <li>• Insurance and bonding policy</li> <li>• Client facing documents including account opening documents, relationship disclosure document and the Know Your Client Form (BC only)</li> <li>• Letterhead and sample business cards (BC only)</li> <li>• Standard employment agreements (BC only)</li> <li>• Any other documents requested by registration staff</li> </ul>
<b>9. Policies and Procedures Manual</b>	
<p>What is a policies and procedures manual (PPM)?</p>	<p>A PPM is an information resource on what a firm does, its functions, its operational structure, its internal controls, who is responsible for what functions and the firm's process to carry out each function. Every company has policies (its own principles)</p>

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<p>Is there a template available for the PPM?</p>	<p>on which it operates - this is normally reflected in its code of ethics, client relationship policies, principles or policies on marketing and advertising, policies on hiring, policies on internal controls and supervision, etc. The PPM also identifies business and operational risks and how these are to be avoided, controlled or managed.</p> <p>The PPM is a code on how the firm operates. The PPM should be kept up to date, to accurately reflect the firm’s operations, functions, policies, procedures and applicable regulatory changes. It is a live document.</p> <p>A corporate function should be founded on a specific corporate policy and supported by detailed procedures on how this function is to be carried out and by whom. Policies are based on the company's regulatory and compliance obligations. Corporate policies and principles should form part of the corporate culture.</p> <p>The PPM should be written in detail so that any person is able to seek guidance from the manual on how a particular function in the organization is carried out. It promotes transparency and makes it possible for every employee to understand the policies of the company and the procedures set out to carry out the functions that make up the operations of the company.</p> <p>We do not have a template for a PPM because policies and procedures are unique to a business. The following link includes some questions a firm should ask when developing its PPM.  <a href="https://www.bpsc.bc.ca/For_Registrants/Compliance_Toolkit/Questions_to_Ask_when_Preparing_a_Policies_Procedures_Manual_(PPM)">https://www.bpsc.bc.ca/For_Registrants/Compliance_Toolkit/Questions_to_Ask_when_Preparing_a_Policies_Procedures_Manual_(PPM)</a></p>
<p><b>10. Business Plan</b></p>	
<p>What does the BCSC mean by “business plan”?</p>	<p>A business plan is a blueprint of the firm’s business. It is a formal statement of the firm’s business goals, the reasons why they are believed to be attainable, and the plan for reaching those goals. It should contain background information about the organization (including its shareholders and principals, affiliates and holding companies) and about the team attempting to reach those goals.</p> <p>As applicant, you have intimate knowledge of the firm’s business, vision, operational strategies and objectives, business risks and controls. We need to understand the firm’s business, its strategies and objectives in relation to its business and how it intends to achieve them. We want to know whether the firm has identified its business and operational risks and how the firm</p>

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	<p>intends to address, mitigate, avoid or control these risks.</p> <p>Your business plan should include:</p> <ul style="list-style-type: none"> <li>• Executive Summary</li> <li>• Nature of the Business</li> <li>• Mission statement (philosophy)</li> <li>• A full list of shareholders, affiliates, related parties, management and permitted individuals</li> <li>• Background on management and permitted individuals</li> <li>• Organizational chart and ownership chart</li> <li>• Related party chart</li> <li>• Business objectives (short and long term)</li> <li>• Market analysis</li> <li>• Target market</li> <li>• Business goals and strategies (short and long term on how objectives will be achieved)</li> <li>• Operational analysis</li> <li>• Marketing (what and how)</li> <li>• Policies and procedures (Set out in a separate PPM)</li> <li>• Human Resources plan (recruitment, training and staffing)</li> <li>• Financial Plans (3-year financial projection)</li> <li>• Risk management (identify business and operational risks and how they will be addressed)</li> <li>• Timetables and milestones</li> <li>• Strategy implementation</li> <li>• Evaluation and control</li> </ul>
<b>11. Audited Financial Statements</b>	
<p>What financial statements are required to accompany a firm's registration application?</p> <p>If a firm applicant has a December 31 year end, do you expect historical IFRS compliant or future IFRS compliant audited financials?</p>	<p>See Section 5.13 of Form 33-109F6 <i>Firm Registration</i> for the required financial statements.</p> <p>Registrants are required to deliver annual financial statements and interim financial information that comply with National Instrument 52-107 <i>Acceptable Accounting Principles and Auditing Standards</i>. Section 12.11 of Companion Policy 31-103CP provides guidance on the accounting principles.</p>
<b>12. Proficiency</b>	
Should the DRs and CCO	Individuals applying for registration may not meet the full

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<p>be fully qualified (passed the necessary courses) before the EMD registration application is submitted?</p> <p>What are the proficiency requirements for CCOs and DRs?</p>	<p>proficiency requirements at the time they submit their application, and may be in the process of obtaining the required proficiencies. We will work with individual applicants on a case by case basis. Where applicable and if the applicant is otherwise fit and proper for registration, we may grant registration subject to terms and conditions that require the individual to complete the required courses within 3 to 6 months from the date of registration.</p> <p>Proficiency requirements for individual categories of registration are set out in Part 3 of NI 31-103.  <a href="https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=31%20103">https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=31%20103</a></p>
<p><b>13. Share Distributions</b></p>	
<p>Can a MIE continue to operate without registration, if they do not make any further share distributions (until such time as they become registered)?</p>	<p>Unless the MIE distributes its securities or permits its shareholders to reinvest their dividends on or after February 15, 2019, it will generally not be required to register as an EMD. If the MIE is an investment fund, the person that directs the business, operations and affairs of the MIE must register as an IFM irrespective of the MIE distributing its securities or permitting its shareholders to reinvest their dividends.</p>
<p><b>14. Reinvestment of dividends</b></p>	
<p>Will a MIE be required to register for permitting quarterly reinvestment of dividends?</p>	<p>Reinvestment of dividends are trades in securities, and a MIE permitting reinvestment of dividends may need to register if it is in the business of trading securities. See section 1.3 of Companion Policy 31-103CP for guidance on the business trigger for registration.</p> <p>Section 8.17 of NI 31-103 provides an exemption from the dealer registration requirement for trades in securities of the issuer's own issue if a dividend or distribution out of earnings, surplus, capital or other sources payable in respect of the issuer's securities is applied to the purchase of the securities, providing the conditions in the section are met.</p>
<p><b>15. New Investments</b></p>	
<p>Would a MIE be required to register if infrequently and without solicitation, a new investor requests to purchase shares in the MIE?</p>	<p>An MIE may need to register if it is in the business of trading securities. See section 1.3 of Companion Policy 31-103CP for guidance on the business trigger for registration.</p>



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<b>16. KYC and Suitability</b>	
When is a registered firm required to conduct 'know your client' (KYC)?	See section 13.2 of NI 31-103 for the KYC requirements. As well, section 13.2 of 31-103CP and CSA Staff Notice 31-336 <i>Guidance for Portfolio Managers, Exempt Market Dealers and Other Registrants on the Know-Your-Client, Know-Your-Product and Suitability Obligations</i> (SN 31-336) provide guidance on the KYC requirement.
When is a registered firm required to conduct suitability with respect to a client?	<p>SN 31-336 can be found at <a href="https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=31%20336">https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/Group/?group=31%20336</a></p> <p>See section 13.3 of NI 31-103 for the suitability requirements. As well, section 13.3 of Companion Policy 31-103CP and SN 31-336 provide guidance on the suitability requirement. Reinvestment of dividends in the securities of an issuer are trades in securities. For registered firms, these trades are subject to the suitability requirement.</p>
<b>17. Captive Dealers / Related or Connected Issuers</b>	
Can a captive dealer meet its KYP and suitability obligations if it offers the securities of a related or connected issuer without sending the offering to an external KYP assessment or review?	<p>If a captive dealer meets its KYC and KYP obligations, it may be able to properly determine whether trades in the securities it is offering are suitable for its clients without obtaining an external assessment or review.</p> <p>For further detail, please read the guidance in CSA Staff Notice 31-336 <i>Guidance for Portfolio Managers, Exempt Market Dealers and Other Registrants on the Know-Your-Client, Know-Your-Product and Suitability Obligations</i>, which can be found at <a href="https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/PDF/31-336_CSA_Staff_Notice_January_9_2014/">https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/PDF/31-336_CSA_Staff_Notice_January_9_2014/</a></p>
Are there other particular considerations for captive dealers?	<p>Under section 13.4 of NI 31-103, all registered firms must identify and respond appropriately to existing and expected material conflicts of interest. Because captive dealers offer securities of related or connected issuers, there are serious concerns about the potential conflicts of interest that arise with these business models.</p> <p>Further guidance on this topic can be found in CSA Staff Notice 31-343 <i>Conflicts of Interest in Distributing Securities of Related or Connected Issuers</i>, which can be found at <a href="https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/PDF/31-343_CSA_Notice_November_19_2015/">https://www.bcsc.bc.ca/Securities_Law/Policies/Policy3/PDF/31-343_CSA_Notice_November_19_2015/</a></p>

QUESTION	ANSWER
<b>18. Marketing by MIEs and trades through registered dealers</b>	
<p>Suppose an MIE enters into a relationship with an EMD on an arm's length basis. The EMD will conduct all registrable services except the MIE will actively market its securities. Will the MIE trip the dealer registration requirement?</p> <p>Are there any registration exemptions available for trades conducted by persons through registered dealers?</p>	<p>Marketing of securities is identical to soliciting for trades in securities, which is a relevant factor in determining business purpose for the registration requirement. The definition of 'trade' in the Securities Act (BC) includes any act, advertisement, solicitation, conduct or negotiation directly or indirectly in furtherance of a trade. For further guidance on the registration trigger, please see section 1.3 of Companion Policy 31-103CP.</p> <p>Section 8.5 of NI 31-103 provides an exemption to a person or company in respect of a trade in a security if the trade is made through a registered dealer, if the dealer is registered in a category that permits that trade. However, this exemption is not available if, in furtherance of the trade, the person or company seeking the exemption solicits or contacts directly any purchaser or prospective purchaser in relation to the trade.</p>

### Questions

If you have questions regarding this notice, please refer them to any of the following:

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