

2002 BCSECCOM 848

Headnote

Mutual Reliance Review System for Exemptive Relief Applications – relief granted from the mutual fund dealer registration requirements in connection with trades by the registrant, to clients for whom the registrant has fully managed accounts governed by an investment management agreement, in units of certain funds managed by the registrant – trades by registrant in the funds is an incidental part of the business of the registrant..

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, s. 48

IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH COLUMBIA, SASKATCHEWAN, ONTARIO AND NEW BRUNSWICK

AND

IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF SCEPTRE INVESTMENT COUNSEL LIMITED

MRRS DECISION DOCUMENT

WHEREAS the Canadian securities regulatory authority or regulator (the “Decision Maker”) in each of the Provinces of British Columbia, Saskatchewan, Ontario and New Brunswick (the “Jurisdictions”) has received an application (the “Application”) from Sceptre Investment Counsel Limited (the “Registrant”) for a decision, pursuant to the securities legislation of the Jurisdictions (the “Legislation”), that the requirement (the “Dealer Registration Requirement”) in the Legislation that prohibits a person or company from trading in a security unless registered as a dealer in the appropriate category shall not apply to the Registrant or to the officers and employees acting on its behalf in respect of certain activities of the Registrant relating to mutual funds of which the Registrant or an affiliate of the Registrant is or becomes the Manager (the “Mutual Funds”);

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (“MRRS”) the Ontario Securities Commission is the principal regulator for this Application;

AND WHEREAS the Registrant having represented to the Decision Makers that:

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1. The Registrant is a corporation governed by the *Business Corporations Act* (Ontario):
2. The Registrant is registered as an adviser in the categories of investment counsel and portfolio manager (or equivalent registration) and as a dealer in the category of mutual fund dealer (or equivalent legislation) in each of the Jurisdictions. The Registrant has applied in Ontario for registration as a dealer in the category of limited market dealer.
3. The Registrant offers investment management services to high net worth individuals, pension funds, institutions and corporations (“Client(s)”). Most Clients enter into investment counsel agreements which grant the Registrant full discretionary authority over the Client’s account (each, a “Managed Account”). Some Clients have accounts with the Registrant where the Registrant is not granted full discretionary authority and which, therefore, are not Managed Accounts.
4. The Registrant is also the sponsor, manager and portfolio manager of a total of 19 Mutual Funds distributed under exemptions from the prospectus requirements of the Legislation and eight Mutual Funds which are prospectus qualified pursuant to National Instrument 81-102 – *Mutual Funds* (“NI 81-102”) and may in the future be the manager of additional Mutual Funds. The Registrant manages the investment portfolios of the Mutual Funds with full discretionary authority under the constating documents of the Mutual Funds.
5. Incidental to its principal business of portfolio management, the Registrant wishes to distribute units of the Mutual Funds to its Managed Accounts and to cause certain of the Mutual Funds to invest in the units of another Mutual Fund (the “Fund of Fund Trades”). Except as provided for in paragraph 9 of this Decision Document and in the Fund of Fund Trades, the Registrant will not distribute units of the Mutual Funds to persons for whom it does not have a Managed Account.
6. Sceptre Mutual Fund Dealer Inc. (“SMFDI”) is a wholly owned subsidiary of the Registrant and is registered under or has applied for registration under the applicable Legislation as a dealer in the category of mutual fund dealer (or the equivalent registration) and has been granted membership in the Mutual Fund Dealers Association.
7. Upon SMFDI’s registration as a mutual fund dealer (or the equivalent registration) in each of the Jurisdictions, the Registrant will assign to SMFDI all of its accounts for which it trades shares or units of the Mutual Funds (the “Assignment”) except the following:

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- (a) The Managed Accounts; and
- (b) The Fund of Fund Trades.

8. After the Assignment, the trading activities of the Registrant in shares or units of the Mutual Funds will be limited to trades for Managed Accounts and Fund of Fund Trades except as provided for in paragraph 9 of this Decision Document.

9. The Registrant also wishes to conduct marketing and wholesaling activities in respect of the Mutual Funds. “Marketing or Wholesaling Activities” means for the Registrant, a trade by the Registrant that consists of any act, advertisement or solicitation, directly or indirectly, in furtherance of another trade in securities of a Mutual Fund, where the other trade consists of:

- (i) a purchase or sale of securities of a Mutual Fund; or
- (ii) a purchase or sale of securities of a Mutual Fund of which the Registrant acts as the “principal distributor” of the Mutual Fund for the purposes of NI 81-102;

and where the purchase or sale is, in each case, made by or through another dealer that is registered under the Legislation where the trade is made in a category that permits it to act as a dealer for such trade.

10. After the Assignment, the Registrant intends to voluntarily surrender its registration as a mutual fund dealer in the Jurisdictions.

11. Without the relief requested, the Registrant would require continued registration as a mutual fund dealer in order to (a) distribute shares or units of prospectus-qualified Mutual Funds to investors for whom the Registrant has Managed Accounts where no registration exemption is available under the applicable Legislation, (b) conduct the Fund of Fund Trades where no registration exemption is available under the applicable Legislation, and (c) conduct Marketing and Wholesaling Activities in respect of the Mutual Funds.

12. Without the relief requested, the Registrant, as a mutual fund dealer, would be required pursuant to the applicable Legislation to apply for and maintain membership in the Mutual Fund Dealers Association of Canada (the “MFDA”).

13. The effect of the MFDA’s membership rules is to preclude a mutual fund dealer such as the Registrant from conducting its principal business of acting as an investment counsel and accepting discretionary portfolio management mandates.

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AND WHEREAS pursuant to MRRS, this Decision Document evidences the decision of each Decision Maker (collectively, the “Decision”).

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met.

IT IS THE DECISION of the Decision Makers under the Legislation that the Dealer Registration Requirement in the Legislation shall not apply to Fund of Fund trades and trades in shares or units of Mutual Funds to Managed Accounts made by the Registrant through its officers and employees acting on its behalf (each a “Registrant Representative”),

Provided that:

- (A) the Registrant is, at the time of the trade, registered under the Legislation as an adviser in the category of “portfolio manager” (or the equivalent);
- (B) if the trade is made in a Jurisdiction other than Ontario, it is made by or at the direction of a Registrant Representative who is, at the time of the trade, registered under the Legislation to act on behalf of the Registrant as an adviser in the category of “portfolio manager” (or the equivalent);
- (C) if the trade is made in the Jurisdiction of Ontario, the Registrant is, at the time of the trade, registered under the Legislation of the Jurisdiction as a dealer in the category of “limited market dealer”, and the trade is made on behalf of the Registrant by a Registrant Representative who is, at the time of the trade, either (i) registered under the Legislation to act on behalf of the Registrant as an adviser in the category of “portfolio manager” (or the equivalent), or (ii) acting under the direction of such a person and is himself or herself registered under the Legislation to trade on behalf of the Registrant pursuant to its limited market dealer registration; and
- (D) for each Jurisdiction, this Decision shall terminate one year after the coming into force, subsequent to the date of this Decision, of a rule or other regulation under the Legislation of the Jurisdiction that relates, in whole or part, to any

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trading by persons or companies that are registered under the Legislation as portfolio managers (or the equivalent), in securities of a mutual fund, to an account of a client, in respect of which the person or company has full discretionary authority to trade in securities for the account, without obtaining the specific consent of the client to the trade, but does not include any rule or regulation that is specifically identified by the Decision Maker for the Jurisdiction as not applicable for these purposes.

AND, IT IS THE DECISION of the Decision Makers under the Legislation of each Jurisdiction that the Dealer Registration Requirement in the Legislation shall not apply to trades that consists of Marketing or Wholesaling Activities in respect of shares or units of Mutual Funds made by the Registrant through Registrant Representatives,

Provided that, in the case of each such trade that is made in the Jurisdiction of Ontario, the Registrant is, at the time of the trade, registered under the Legislation of the Jurisdiction as a dealer in the category of "limited market dealer" and the Registrant Representative that makes the trade on behalf of the Registrant is, at the time of the trade, registered under the Legislation of the Jurisdiction to trade on behalf of the Registrant pursuant to its limited market dealer registration.

July 26, 2002

Paul M. Moore

Robert L. Shirriff