



THE Registrant

SUMMER 2000 • ISSUE 5 • www.BCSC.bc.ca News and interpretations for the securities industry from the BCSC's Registration Division

OCTOBER 20-24 AT WESTIN BAYSHORE

BCSC co-sponsors conference in Vancouver this fall on money laundering and other financial crimes

The B.C. Securities Commission is sponsoring an international conference on money laundering and other financial crimes in Vancouver this fall.

The Pacific Rim Money Laundering and Financial Crimes Conference is scheduled for October 20-24 at the Westin Bayshore and is expected to draw more than 750 speakers and delegates from 50 to 60 countries, said conference organizer, RCMP Inspector Kim Clark.

"We are hoping to attract senior executives from the securities industry to the conference," said Clark, who is also president of the host organization, The Society for the Study of Criminal Enterprise in the Pacific Rim. "We have set aside a whole day to discuss securities issues such as currency movements, due diligence, offshore accounts, suspicious transactions and e-commerce."

Details about registering for the conference and exhibit space for the accompanying trade show are available on the Internet at www.financialcrime.org or by contacting Conference Co-ordinator, Mary Sabater, at (604) 264-2350.

The securities industry should take time to study these issues, said Clark, particularly with new federal legislation introduced last December. *Bill C-22* expands existing reporting and record-keeping requirements for business.

The existing *Proceeds of Crime (Money Laundering) Act (PCMLA)* and its *Regulations* apply to every person engaged in a business, profession or activity where cash is either received for payment or for transfer to a third party.



There are several aspects of *Bill C-22* that affects Registrants:

REPORTING REQUIREMENTS:

- ✓ The regulations specifically include "persons engaged in the business of dealing in securities," including portfolio managers and investment counsellors and anyone engaged in the business of foreign exchange dealing.
- ✓ You will be required to report every transaction where there are

reasonable grounds to suspect that a transaction is related to money laundering.

- ✓ You will be required to report transactions where two or more transactions are entered into on the same day and result in a total amount of cash received of \$10,000 or

Conference: Continued on page 2 →

How to protect your firm from abuses in trading

In a recent decision by the British Columbia Securities Commission, a former equity analyst, John Pyper, was ordered to pay \$27,000 in penalties and costs. Pyper was also banned from trading for five years for a breach of section 128 of the *Securities Act*.

That section refers to using information obtained from managing the investment portfolios of others for personal benefit. This case raises the question of how employers can regulate the personal investing of their staff.

Virtually all firms in the investment industry need to have procedures in place to supervise the personal investing of employees to ensure that employees do not violate section 128, or any other section, of the *Act*.

Some simple procedures that can easily be implemented:

1. Have each employee direct the firm that holds their personal account provide a duplicate of their monthly account statement to the Compliance Officer of your firm.
2. Institute a pre-authorization procedure whereby any personal trades done by an employee must be pre-authorized by a senior partner or officer of the employer.
3. Consider implementing the use of restricted lists, blackout periods and investing only in proprietary funds .
4. Consider implementing a prohibition on short-term trading. These procedures may not prevent a determined employee from breaching the *Act*, but they would prevent inadvertent violations and increase the chance of detecting deliberate abuse. They may also protect your firm from civil or regulatory liability in the event of employee misconduct.

New mutual funds rule in effect

A new mutual funds rule came into effect February 1, 2000. National Instrument #81-102 *Mutual Funds* (NI #81-102) is a full revision of *National Policy #39*.

While many of the 20 parts contained in NI #81-102 apply to mutual fund companies, there are a number of areas pertaining to mutual fund dealers:

SALES AND REDEMPTIONS

Sections 9 and 10 of the new rule set out provisions for the transmission and receipt of purchase and redemption orders in more detail than previous policy. NI #81-102 defines when a fund is deemed to receive an order and the time frame allowed to process the order. Purchases and redemptions are to be settled within three days after the pricing date (T+3).

COMMINGLING OF CASH

Cash received for investment in or from the redemption of mutual funds must be accounted for separately and deposited into a trust account maintained in accor-


dance with Part 11 of the new legislation. Mutual fund and non-mutual fund cash cannot be commingled. Therefore, a separate trust account is required for other investments, including GICs. Trust account requirements now specify when, how, and to whom interest on a trust is to be calculated and paid.

COMPLIANCE REPORTS

Part 12 of the new rule states that each participating dealer must file a compliance report within 90 days of year-end, a change from 120 days.

SALES COMMUNICATIONS

Rules governing sales communications (section 15) have been significantly enhanced from the previous legislation. Sales communication is defined to be either written or verbal. Topics covered include image advertising, rate of return information, performance benchmarks and rankings.


There is a link to the rule on the BCSC website. 

BCSC eases cold calling for SROs

The B.C. Securities Commission has provided a new exemption from legislation prohibiting cold calling.

The exemption allows Investment Dealer Association member firms and their salespeople to cold call for the purpose of opening new accounts or to sell securities.

This change does not apply to mutual fund dealers, securities dealers or scholarship plan dealers.

These dealers do not currently belong to a Self Regulatory Organization and are still prohibited from calling, in person or by telephone, a person's residence for the purpose of opening an account or selling a security. 

→ Money Laundering: from page 1

more from the same person.

✓ You will be required to report transactions involving five or more thousand-dollar bills.

✓ You will be required to report all securities purchases involving \$10,000 or more in cash. In addition, institutions taking deposits will be required to report wire transfers of \$25,000 or more.

CLIENT ID, RECORD-KEEPING:

✓ You will be required to verify the identity of an individual authorized to give instructions for an account by checking the individual's birth certificate, driver's licence, provincial health insurance card, passport or any similar document. You must record a reference number and the type of document used to verify the individual's identity on the client application form, transaction ticket, large cash transaction record, or account operating agreement.

✓ You will be required to verify by reference to incorporation documents, including the certificate of incorporation, the identity, address and names of directors of corporate clients. Copies of such documents must be retained. Directors also will

be required to provide a signed statement indicating if an account is opened on behalf of another party and if so, details of that third party must be provided.

✓ Under existing regulations, you are required to maintain a large (\$10,000+) cash transaction record, and retain it for five years. The record must include:

- ◆ The name of the person in whose account the funds are deposited;
- ◆ The date of the transaction;
- ◆ The nature of the transaction;
- ◆ The account number of any client that is affected by the transaction;
- ◆ The amount and currency in which the cash was received; and
- ◆ The name of any third party involved in the transaction.

✓ Also under existing regulations, securities dealers are required to keep and retain client documentation for every account including:

- ◆ A signed account application form;
- ◆ Confirmations of purchase or sale;
- ◆ Guarantee, trade authorization, power of attorney and joint-account agreements; and
- ◆ Copies of every monthly statement sent to the client.


✓ Under the proposed regulations, the required records must be readily accessible within 10 days. Certain documents will be acceptable in machine-readable form.

Note that anyone contravening or failing to comply with the PCMLA is guilty of an offence and could face fines or jail time if convicted.

Fines ranging from \$250 to \$1,000 may be levied for failure to report transactions even when no suspicion of money laundering exists.

Bill C-22 also proposes to establish the Financial Transactions and Reports Analysis Centre of Canada. This independent government body will receive and analyze reported information about financial transactions and cross-border currency movements.

The Centre will have primary responsibility for monitoring the compliance of financial intermediaries with record keeping, know-your-client and mandatory suspicious transactions reporting requirements. The format and means of reporting will be prescribed by legislation.

Further information about current legislation affecting registrants can be obtained from NIN #93/8 on the BCSC website. 

New B.C. law to affect registrants


New provincial legislation concerning unclaimed property will affect registrants in B.C. when it goes into effect later this year.

The *Unclaimed Property Act* requires holders of unclaimed property to make reasonable efforts to locate and notify owners of their unclaimed property. Generally speaking, a holder is a corporation or other organization that holds property on behalf of an owner. Property is broadly defined in the *Act*, and includes:

- ✓ deposits, if there is a right to a cash refund;
- ✓ securities and their entitlements, and money deposited to purchase or trade in securities; and
- ✓ rights to receive amounts distributable from trust funds established under many types of benefit plans.

Holders are not required to remit unclaimed property to the province.

This *Act* applies to a holder of property if, according to the holder's records, the last known address of the owner is in British Columbia or, if the last known address is not known, if the transaction from which the property arose was entered into or arranged in B.C. It is not retroactive and applies only to property arising from a transaction entered into after July 1, 2000.

The *Act* and information about the Unclaimed Property Office is available on the B.C. Government's Internet website at www.fin.gov.bc.ca/ocg/upo/unclaimed or contact Michele McBride at (250) 387-8793. 

The importance of proper financial filings

When it comes to filing financial statements and other regulatory reports with the BCSC, many registrants have not met the required standards. The concept of accrual accounting, a Generally Accepted Accounting Principles or GAAP requirement, is often not incorporated in the monthly and quarterly filings. This results in incorrect working capital figures.


To ensure compliance, note the following:

- ❖ Amounts due from related parties (e.g. inter-company loan) are not considered allowable and should be excluded from current assets.
- ❖ You must have a financial institution bond (section 21 of the *Rules*).
- ❖ You must calculate working capital on a monthly basis to ensure positive capital is maintained at all times.
- ❖ Amounts owing to non-arm's length parties are current liabilities (regardless of repayment terms) unless a subordination agreement is filed with the BCSC.
- ❖ Repayment of subordinated funds in whole or in part requires written permission from the Executive Director of the BCSC.

From a timing perspective, you should keep in mind the following:

- ❖ Audited statements are due within 90 days of year end.
- ❖ Monthly reports are due within 30 days of month end; quarterly reports are due within 30 days of the quarter end.
- ❖ Mutual fund and securities dealers must file an audited compliance report (*NI #81-102* replacement of *NP #39* — see page 2 of this newsletter) within 90 days of year-end. This is a change from 120 days, previously.

In addition to the points mentioned above, the financials must be prepared using an accrual basis of accounting with interim financials clearly labelled as quarterly or monthly statements. As well, a bank deposit slip evidencing funds deposited should be submitted whenever capital is injected and subordinated.

We recommend that you consider hiring an in-house accountant to ensure financial statements are prepared in a timely manner and in accordance with GAAP. 

CONDITIONS TO BECOME EFFECTIVE THIS FALL

Registration conditions for mutual fund dealers to change in light of exempt-market problems

The Executive Director plans to impose conditions of registration on all mutual fund dealers to address problems staff found in the sale of limited partnerships and other securities sold without a prospectus.

The conditions will be published for comment in July and become effective October 1, 2000. The proposed conditions include the following:


- ◆ Dealers will be required to perform due diligence procedures and retain records

of all due diligence work;

- ◆ A senior person will be required to contact clients to discuss whether the investment is suitable for the client;
- ◆ A senior officer will be required to sign a certificate to the offering memorandum attesting that all facts are true and no material fact has been omitted;
- ◆ An offering memorandum will be required for the sale of these products regardless of the exemption being relied upon; and

- ◆ Dealers will be prohibited from selling products of any related entities.

Among regulators, these investments are called "exempt market products" because they are offered for sale under exemptions from prospectus requirements.

"We believe these conditions will address some of the problems observed in the exempt market and will protect investors who purchase exempt products," said Ross McLennan, BCSC Director of Registration. 

Better record keeping required

The results of recent examinations revealed that many dealers are failing to produce and retain dealer records as required by sections 27-42 (Division 5) of the *Securities Rules*. These sections identify what records are required to be produced, the basic contents of these records, and how long they must be retained. Although all rules contained in sections 27-42 are important, this article highlights specific sections of the legislation where dealers have encountered difficulties. *The rules quoted here are paraphrased and not meant to replace the specific wording in these sections.*

RECORD KEEPING BY REGISTRANT

(section 27)

You must keep at your head office or, if your head office is outside B.C., at your chief place of business in B.C., a complete and accurate record of your business transactions and financial affairs.

ADEQUATE PRECAUTIONS AND ACCESS

(section 28)

You may store information using electronic means provided that adequate precautions are taken to ensure the safety of the records. As well, you must be able to furnish the information in an accurate form, capable

of being printed, within a reasonable time.

BLOTTERS (section 29)

You must keep itemized trading blotters that show all purchases and sales of securities. This rule describes the required information to be recorded on the trade blotter for each order.

ORDERS AND INSTRUCTIONS (section 33)

You must keep complete and accurate record of each order and instruction, given or received, for the purchase, sale, receipt or delivery of a security and must include all the particulars with respect to these transactions.

TRADE CONFIRMATIONS (sections 36 and 37)

You must send your clients confirmations for all purchases and sales of securities. These sections describe when a confirmation must be issued and what it must contain.

STATEMENT OF ACCOUNT (section 38)

A dealer must prepare and send a statement of account to each client at the end of every month showing all activity for the period. Mutual fund dealers may rely upon the mutual fund company to send out an annual statement. Portfolio man-

agers are required to send statements on a quarterly basis.

We recommend dealers review these rules to help ensure full compliance in this area. If you have any questions or require further clarification, contact the BCSC Registration Department.

CONCEPT PAPER DEALS WITH DISTRIBUTION STRUCTURE

In August 1999, the Canadian Securities Administrators (CSA) published a Concept Paper on the distribution structure in the securities industry.

The Paper comments on areas such as independent contractor arrangements, the use of trademarks and trade names, payment of referral fees and financial planning activities.

Though the Concept Paper is not law, it expresses the views of the CSA regarding how securities should be distributed. The CSA expects the Mutual Fund Dealers Association's bylaws to incorporate these concepts. You can read the Concept Paper on the BCSC website.

FINANCIAL PLANNERS URGED TO REVIEW RULE

Section 3.6 of *Local Policy Statement 3-22* specifies who can use the title 'Financial Planner.' Be sure to check the policy prior to using any title on your business cards or on corporate signage.

The Canadian Securities Administrators (CSA) published a draft rule (*Multi-lateral Instrument 33-107*) in December 1999. This rule proposes that anyone who wants to use the title 'Financial Planner' must write a common proficiency exam.

If you currently hold a financial planning designation, you should review draft *MI 33-107* to see if your designation falls within the grandfather clause.

If you are interested in pilot-testing the new *Financial Planning Proficiency Exam* on October 2, 2000, contact Wendy Sullivan, Chief Examiner, at the BCSC at 604-899-6752.

PORTFOLIO MANAGERS: WHEN TO FILE FORM 20

Portfolio managers of in-house pooled funds should be familiar with the requirements for filing a *Form 20* with the BCSC.

IN THE SPOTLIGHT: Mani Sanghera

Mani Sanghera joined the B.C. Securities Commission's examination team in September 1999 after spending four years with the Vancouver Stock Exchange as a Surveillance Officer and Examiner. As a VSE Surveillance Officer, Sanghera dealt with listed companies concerning corporate governance issues including continuous disclosure, management misconduct, and trading irregularities. As a VSE Examiner, Sanghera dealt with regulatory reporting and other compliance obligations of VSE member firms.



Mani Sanghera

Sanghera decided to move to the BCSC because of the scope and diversity of the Ex-

aminer position. As well, he saw the opportunity to use his experience at the VSE to assist in refining regulatory procedures at the BCSC. Originally from Birmingham, England, Sanghera moved to Canada in 1990. He qualified as a Chartered Accountant in England in 1989 and in Canada in 1990. Sanghera's first exposure to the securities industry came while articling with BDO Dunwoody. During this time he was introduced to the investigative side of the financial world when he assisted a team investigating a \$2 million fraud involving employees of a major bank in London, England.

Depending on the exemption used to distribute the pooled funds without a prospectus, the portfolio manager may have to file:

- ✓ 10 days after initial and subsequent distributions; or
- ✓ 10 days after the calendar year end in

which a distribution takes place. Moving client money among a firm's pooled funds may also trigger filing requirements.

Portfolio managers should consult with their legal counsel to determine which fil-

ing requirement applies and ensure all filings are up to date.

The B.C. Securities Commission is reviewing the possibility of simplifying the *Form 20* filing requirement for pooled funds.

THE REGISTRATION DIARY

- **AAI Financial Group Ltd.** ceased to be a Mutual Fund Dealer on Oct 6, 1999.
- **Advantage Investment Services Corp.** has changed its name to **Independent Wealth Advantage Inc.** on Mar 17, 2000.
- **Aspen Capital Management Inc.** was registered as a Portfolio Manager for mutual funds only on Dec 16, 1999, and it was downgraded to Mutual Fund Dealer on Mar 6, 2000.
- **Bayoff Investment and Financial Planning** ceased to be an Investment Counsel on Dec 28, 1999.
- **BayStreet Direct Inc.** was registered as an Investment Dealer/Underwriter on Dec 9, 1999.
- **Bioscience Managers Limited** was registered as a Portfolio Manager on Nov 30, 1999.
- **BLC Securities Inc.** was registered as an Investment Dealer on Feb 4, 2000.
- **BNP (Canada) Securities Inc.** was registered as an Investment Dealer on Mar 9, 2000.
- **Bolder Investment Partners, Ltd.** was registered as an Underwriter on Nov 10, 1999.
- **Bright Trading, Inc.** was registered as a Securities Dealer on Mar 15, 2000.
- **Connor Capital Management Corp.** changed its name to **Cumberland Asset Management Corp.** on Oct 7, 1999.
- **Credit Suisse Asset Management, LLC** was registered as a Portfolio Manager on Feb 2, 2000.
- **CT Securities Services Inc.** ceased to be registered as an Investment Dealer on Dec 18, 1999.
- **Cundill Funds Inc.** ceased to be a Mutual Fund Dealer on Feb 1, 2000.
- **Discovery Global Advisors Company** ceased to be a Portfolio Manager on Apr 29, 1999.
- **Ethical Funds Inc.** was registered as a Portfolio Manager on Dec 15, 1999.
- **First Marathon Securities Ltd.** changed its name to **National Bank Financial Corp.** on Sept 15, 1999.
- **Flowthru.com(99) Limited Partnership** was registered as a Security Issuer on Oct 27, 1999.
- **Global Strategic Management, Inc.** ceased to be a Portfolio Manager on Nov 20, 1999.
- **Groome Capital Inc.** changed its name to **Groome Capital.com Inc.** on May 12, 1999.
- **Guardian Capital Advisors Inc.** was registered as a Portfolio Manager on Mar 21, 2000.
- **HSBC Private Equity Management Limited** changed its name to **HSBC Private Equity (Asia) Limited** on Nov 6, 1999.
- **Indago Capital Management Inc.** ceased to be a Portfolio Manager on Apr 30, 1999.
- **Independent Wealth Management Inc.** ceased to be a Mutual Fund Dealer on Mar 17, 2000.
- **ING Funds Limited** was registered as a Mutual Fund Dealer on Jan 26, 2000.
- **JML Portfolio Management Ltd.** was registered as a Portfolio Manager (Foreign) on Oct 27, 1999.
- **John Nicola Financial Group Ltd.** upgraded from Investment Counsel to Portfolio Manager on Oct 27, 1999.
- **Laurentian Bank Investment Services** changed its name to **BLC Services Financiers Inc./ LBC Financial Services Inc.** on Oct 5, 1999.
- **Levesque Beaubien Geoffrion Inc.** changed its name to **National Bank Financial Inc.** on Sept 15, 1999.
- **Levesque Securities Inc.** changed its name to **National Bank Financial Inc.** on Sept 15, 1999.
- **M.K. Wong Management Ltd.** ceased to be a Mutual Fund Dealer on Apr 30, 1999.
- **Magna Vista Capital Management Inc.** was registered as a Portfolio Manager on Dec 21, 1999.
- **Mawer Investment Management** was registered as a Portfolio Manager on Oct 27, 1999.
- **McCutcheon Steinbach & Associates Inc.** changed its name to **McCutcheon Steinbach Comber Investment Management Inc.** on Mar 17, 2000.
- **McGinnis Management Ltd.** ceased to be an Investment Counselor on Apr 10, 1999.
- **McKinley Capital Management Inc.** was registered as a Portfolio Manager on Mar 20, 2000.
- **Mondiale Asset Management Ltd.** upgraded from Investment Counsel to Portfolio Manager on Oct 21, 1999.
- **Moneywise Financial Inc.** was registered as a Mutual Fund Dealer on Mar 14, 2000.
- **National Bank Discount Brokerage Inc.** was registered as an Investment Dealer on Oct 29, 1999.
- **National Bank Securities Inc.** ceased to be an Investment Dealer on Oct 29, 1999.
- **Nesbitt Burns Inc.** changed its name to **BMO Nesbitt Burns Inc.** on Feb 15, 2000.
- **Noram Capital Management, Inc.** had its registration as a Portfolio Manager cancelled on Mar 8, 2000.
- **Octagon Capital Corporation** was registered as an Investment Dealer and Underwriter on Jan 17, 2000.
- **Peter Yuile & Company Ltd.** upgraded from Investment Counsel to Portfolio Manager on Oct 15, 1999.
- **Planvest Financial Services Inc.** ceased to be a Portfolio Manager on May 21, 1999.
- **Prime Canadian Futures Company** changed its name to **Main Street Trading (Canada) Co.** on Jan 4, 2000.
- **Primus Capital Advisors Company** changed its name to **SEI Investments Canada Company/Société De Placements SEI Canada** on Mar 17, 2000.
- **Private Investors Management Inc.** changed its name to **Dundee Private Investments Inc./ Investisseurs Prives Dundee Inc.** on Oct, 1999.
- **Scotia McLeod Inc.** changed its name to **Scotia Capital Inc.** on Nov 1, 1999.
- **Scudder Maxxum Co.** was registered as a Mutual Fund Dealer on Sept 17, 1999.
- **Seamark Asset Management Ltd.** was registered as a Portfolio Manager on Oct 25, 1999.
- **Sprucegrove Investment Management Ltd.** was registered as a Portfolio Manager Mar 7, 2000
- **State Street Brokerage Services Canada Inc.** was registered as an Investment Dealer on Oct 18, 1999.
- **Sun Alta Investment Counsel Ltd.** ceased to be a Portfolio Manager on Feb 28, 2000.
- **The Affinity Group Inc.** ceased to be a Mutual Fund Dealer on Aug 5, 1999.
- **Whalen, Beliveau & Associates Inc.** ceased to be an Investment Dealer and Underwriter on Mar 30, 2000.
- **World Marketing Alliance Securities of Canada Inc.** was registered as a Mutual Fund Dealer on Jan 3, 2000.
- **YMG Capital Management Inc.** was registered as a Portfolio Manager on Aug 18, 1999.

FORMER PASTOR BANNED FROM TRADING AND ASSESSED \$100,000 PENALTY

The Commission has permanently banned Gary Stanhiser from the B.C. securities market.

He also has to pay a \$100,000 administrative penalty and is required to pay for most of the costs of the Commission hearing resulting from the investment fraud he perpetrated. Stanhiser, a former pastor with the Seventh Day Adventist Church, masterminded an offshore investment scam in which 300 investors lost at least \$11 million.

Many of the investors were church members in B.C. and California.

EQUITY ANALYST BARRED FOR FIVE YEARS AND HANDED \$27,000 PENALTY

On March 24, 2000, the BCSC found that John Pyper, an equity analyst, had breached section 128 of the *Securities Act* on four occasions.

Section 128 prohibits any person who has access to information concerning the investment program of a mutual fund or a client investment portfolio managed by a portfolio manager from using that information to purchase or sell securities for their own personal benefit or advantage.

Pyper has been banned from trading securities for five years and was ordered to pay \$27,000 in penalties and costs associated with the hearing into his conduct.

FORESIGHT CITED FOR INADEQUATE COMPLIANCE

In a settlement with Foresight Capital Corporation, a registered securities dealer in B.C., the Commission imposed a limit on the number of additional representatives Foresight can employ until it implements a more effective compliance program.

A routine examination by Commission staff in 1999 found that Foresight failed to keep at its main office a complete and accurate record of its business and financial affairs, which is a violation of section 27 of the *Rules*.

We also discovered that Foresight violated section 47 of the *Rules* when its compliance officers failed to properly approve new client accounts and supervise transactions made on behalf of clients.

In the settlement set out in an Agreed Statement Of Facts, Foresight will also pay a \$10,000 administrative penalty for the violations.

NORAM'S REGISTRATION CANCELLED FOR LACK OF WORKING CAPITAL

The BCSC has cancelled the registration of portfolio manager Noram Capital Management Inc.

The move was taken after finding that the firm failed to meet its working capital requirements, filed misleading financial statements and even misled Commission staff.

The Commission panel also imposed a penalty of \$25,000.

SETTLEMENT REACHED WITH FORTUNE FINANCIAL

As part of a routine compliance examination, Commission staff found that Fortune Financial Corporation failed to maintain at its chief place of business in British Columbia a complete and accurate record of its business transactions as required by section 27 of the *Rules*.

Fortune also failed to send out client statements or establish and apply prudent written business procedures for dealing with clients in compliance with the *Act*.

In addition, Fortune failed to make enquiries as required under section 48 of the *Rules* and failed to designate a Compliance Officer, as required in sections 65 and 47 of the *Rules*. In a settlement, Fortune agreed to pay \$125,000 to the BCSC.

LABADIE SETTLES OVER INACCURATE FORM 4 APPLICATION

Joseph Labadie is a registered mutual fund salesperson with Investors Group Financial Services Inc.

As part of his application for registration, Labadie was required to complete and file the Uniform Application, Form 4. Labadie was required to disclose on this form the reasons for leaving his previous place of employment.

Commission staff determined that Labadie gave an answer in his application that was inaccurate and misleading. Labadie admitted the misconduct and agreed to pay a \$2,000 penalty for this action.

Written, prudent business procedures can help firms of all types practice effective due diligence

Section 44 of the *Securities Act* requires a dealer, portfolio manager or investment counsel to establish and apply written, prudent business procedures for dealing with clients.

The written procedures should outline the due diligence that will be undertaken by the registrant prior to adding exempt products to its approved product list. To practice effective due diligence you should:

- ✓ Obtain and review the offering documents;

- ✓ Determine and document the purpose and objective of the product in terms of risk profile and client suitability;
- ✓ Do a financial analysis or request an expert opinion;
- ✓ Assess whether the investment product is likely to meet its stated objectives;
- ✓ Obtain and review material contracts, business plans, expert opinions and reports;
- ✓ Determine if there are any conflicts of interest;

- ✓ Assess management qualifications and their track record; and
- ✓ Review the entity's financial position and history.

If you rely on another registrant for part of the due diligence process, you must assess the findings and the adequacy of the procedures used.

You should use a due diligence checklist to document and assign responsibility and to track workflow. You should also retain records of all due diligence work.

BCSC hosts Compliance Officers

The BCSC hosted a *Meet & Greet* reception for compliance officers on June 14, 2000 at the Law Courts Inn. The reception offered fellow officers an opportunity to meet and share concerns with others in the industry. The Registration Department also presented the latest changes in regulations.

"The BCSC hopes to continue to host industry functions to foster a co-operative working relationship among compliance officers and to keep industry participants aware of the changes in regulations," said Ross McLennan, BCSC Director of Registration.

B.C. Dealer Categories: Breakdown by Primary Jurisdiction

B.C. SECURITIES COMMISSION

PORTFOLIO MANAGERS	129
MUTUAL FUND DEALERS	83
INVESTMENT COUNSEL	31
SECURITIES DEALERS	23
EXCHANGE CONTRACTS	7
SCHOLARSHIP PLAN DEALERS	5
OTHER	8
TOTAL:	286

INVESTMENT DEALERS ASSOCIATION

INVESTMENT DEALERS	47
INVESTMENT DEALERS/UNDERWRITERS ..	49
UNDERWRITERS	1
TOTAL:	97

These numbers show the number of registrants in B.C. by registration category as of April 30, 2000. The primary jurisdiction over mutual fund dealers and securities dealers will change in 2001 with the recognition of the Mutual Fund Dealers Association (MFDA). Existing mutual fund dealers and securities dealers will have to join either the MFDA or the IDA.

MFDA or IDA: That is the question

If you are a mutual fund dealer or a securities dealer in British Columbia, you will soon have to join a Self-Regulatory Organization (SRO). If you haven't done so already, you and your management team should decide soon whether you will join the Investment Dealers Association (IDA) or the new Mutual Fund Dealers Association (MFDA).

The MFDA expects to be recognized as a new Self-Regulatory Organization (SRO) in January 2001, changed from July 2000. Once that occurs, it's expected that mutual fund and securities dealers will have a short deadline to indicate which organization they will join.

The new rule requiring SRO membership hasn't yet been finalized. You can see the draft rule, which was provided for comment in 1998, on the BCSC website at www.bcsc.bc.ca (NIN #98/39).

INVESTMENT DEALERS ASSOCIATION

If you are considering joining the IDA, you should contact the IDA as soon as possible and ask for a registration package. Since registration with the IDA can take four to six months, now is the time to find out about IDA requirements. Some things to consider:

- Do your representatives have to rewrite their Canadian Securities Course? (If they passed the course five years ago and haven't been registered

as a Registered Representative, they will have to rewrite).

- Is your Compliance Officer (CO) qualified under IDA bylaws?
- If not, does the CO have time to upgrade, or must you find a new CO?
- Do you have the right technology in place to meet IDA reporting requirements?
- Can your firm meet the capital requirements?

You can visit the IDA website at www.ida.ca to obtain a membership application form and to find out more information about becoming a member.

MUTUAL FUND DEALERS ASSOCIATION

Draft rules and bylaws for the MFDA have been reviewed by the securities commissions and are expected to be published for comment by the end of June 2000. You will have an opportunity to provide comments to the BCSC during a 90 day period after the publication of the draft rules and bylaws. What happens once the rules are out for comment?

- You should determine whether the MFDA is the appropriate SRO for you.
- Study the five categories of dealer registration and decide which category best fits with your current situation. (Capital requirements and permitted activities vary by category.)
- Review your most recent examination

deficiency letter and ensure that you have addressed all points raised by BCSC examiners. The MFDA will likely ask for your letter and failure to rectify identified deficiencies could lead to a delay in your membership application. If serious deficiencies have not been addressed, your membership application may be refused.

- Review your current compliance manual and update it prior to applying for membership.
- Review your internal reporting systems. If your firm is unable to prepare client account statements, you should look into carrying dealer arrangements.
- Review your current salesperson agreements. Any reference to "independent contractor" will not be permitted (refer to the CSA Concept Paper on Distribution Structures published in August 1999).

Bringing securities dealers and mutual fund dealers into the SRO system is an initiative being undertaken by the BCSC and the CSA to ensure there is adequate supervision of these dealers. This sector of the securities business has outgrown the regulatory structure established before the mutual fund and exempt products business became so large and sophisticated.

BCSC website updated— and even more to come

Be sure to visit and bookmark the BCSC website: www.bcsc.bc.ca

It is a valuable industry resource to:

- ✓ See updates on BCSC policy, rulings and investor alerts
- ✓ Obtain quick access through links to other industry-related sites
- ✓ See brochures on investor protection topics for your clients
- ✓ Track insider trading
- ✓ Track exempt product issues
- ✓ Access the latest press releases and news from the BCSC
- ✓ Learn about upcoming industry educational forums

Your feedback and comments on the site are encouraged.

Coming to the site this summer:

- ✓ Answers to common questions
- ✓ Checklists for registration applications

BCSC RESOURCES

BROCHURES AND RELATED MATERIAL

- ✓ *Getting Started [in Investing]* ▼
- ✓ *A [BCSC] Primer* ► 附中文譯本備索
- ✓ *Choosing Your Financial Advisers* ▲
- ✓ *The Prospectus: What it is, and why you should read it*
- ✓ *Investing and the Internet: Be Alert to Signs of Fraud*
- ✓ *Exempt Market Securities: Look before you leap*
- ✓ *Mutual Funds – What you need to know*
- ✓ *Your Investment Planning Worksheet*
- ✓ *Characteristics of Securities (a wall poster)*

Dealer Compliance Officers, or their assistants, should contact the BCSC's Information & Records Division for details on bulk orders.

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Editor-in-Chief: Ross McLennan

Executive Editor: Michael Sorbo • Managing Editor: Michelle Pickerill

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BCSC

B.C. Securities Commission
200–865 Hornby St.
Vancouver, B.C.
Canada V6Z 2H4

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