PART 2 CATEGORIES OF REGISTRATION

2.1 – Dealer

(h) An applicant for registration as a securities dealer, exchange contracts dealer, mutual fund dealer, real estate securities dealer or scholarship plan dealer must have a financial institution bond for a minimum of $200,000 coverage. An applicant for registration as an investment dealer must have a financial institution bond for coverage in the amount that the **IDA -Pacific** requires. Subject to the paragraph that follows, the bond must cover the applicant, its partners, directors, officers, salespersons (including dependent and independent contractors – see BCIN33-703) and other employees for a minimum of:

- fidelity
- on-premises loss of property
- in-transit loss of property
- forgery or alteration
- loss resulting from forged, altered, lost or stolen securities, and
- counterfeit currency

[*Rules s. 21(1)(a)*].

An applicant for registration as a mutual fund dealer that does not hold client funds or securities and that is permitted by the **Executive Director** to maintain the lower level of working capital set out in section 10.3 of this policy must, as a minimum, maintain coverage relating to the first three bullets above [*Rules ss. 19(5), 21(1)(a)*].

An applicant for registration as an exchange contracts dealer ~~(other than an exchange contracts dealer that trades in foreign exchange contracts)~~ that does not hold client funds or securities and that is permitted by the **Executive Director** to maintain the lower level of risk adjusted capital set out in section 9.4 of this policy must, as a minimum, maintain coverage relating to the first three bullets above [*Rules ss. 19(4), 21(1)(a)*].

In each case, the partners or directors of the applicant must state, by certified resolution, that they consider the amount of bonding adequate to cover insurable business risks [*Rules s. 21(1)(b)*].

PART 9 LIMITED DEALER - EXCHANGE CONTRACTS DEALER

9.1 General Requirements

Refer also to the general requirements set out in Parts 4 – 6 of this policy.

~~**9.2 Description of Limited Dealer - Exchange Contracts Dealer**~~

~~A registered exchange contracts dealer is a corporation or partnership that is authorized to trade exclusively in exchange contracts, forward contracts or both, subject to the scope of its conditions of registration [*Rules s. 6(2)(d)(c)(i)*]. The Executive Director, by blanket order, will BC Instrument 31-503 *Exchange Contract Dealers Trading in Commodity Pool Securities also* permits a registered exchange contracts dealer, and individuals registered to trade on its behalf, to trade in Commodity Pool securities without additional registration requirements. [BCI 31-503]~~

~~9.3 **Additional Conditions of Registration for Trading in Foreign Exchange Contracts**~~

~~Where an applicant for registration as an exchange contracts dealer seeks to trade in foreign exchange contracts, the Executive Director will generally require, as a condition of registration, that an applicant meet the requirements set out in this section.~~
~~Revised June 1, 2005~~

~~(a) The counterparty to the foreign exchange contract must be acceptable to the Executive Director. In determining acceptability, the Executive Director may consider whether the counterparty:~~

- ~~is a financial institution with assets of at least $50 million~~
- ~~is a regulated entity in its home jurisdiction, and~~
- ~~provides acceptable periodic financial reporting and annual audited financial reporting to clients and the Commission.~~

~~The dealer must become a participating member of an acceptable program of arbitration between the dealer and its clients.~~

~~(b) A guarantee of the dealer by way of a standby unconditional subordination agreement in an amount of $500,000, with an acceptable institution as defined in BC Form 33-902F, will be required. The dealer will not be required to participate in the provincial contingency fund.~~

~~(c) All trades must be effected through a registered salesperson. If a person proposes to perform discretionary trading, the person must be registered as a portfolio manager [*BCIN 33-702*].~~

~~(d) Non-discretionary accounts shall not trade overnight or trade for periods longer than 24 hours without renewed client instruction, except as set out in a specific strategy, documented and agreed upon by the client and the salesperson.~~

~~(e) The counterparty to the foreign exchange contract must send:~~

- ~~a *monthly* report to the client showing open positions, cash positions and a summary of profit and loss so long as there is an open position or cash in the account~~
- ~~a *daily* report to the client showing previous balance, profit/loss, deposits, withdrawals, commissions, swap/interest, new balance, floating profit and loss, equity, margin required and effective margin if they are holding open positions, and~~
- ~~a *monthly* report to the Commission, not later than five business days after the end of the month, showing the summary of monthly transactions and month end positions stating profit, interest, commissions, net profit and loss, deposits, payments, net deposit, account balance, floating profit and loss and equity.~~

~~(f) A risk disclosure statement must be provided to the client that discloses:~~

- ~~the terms and risks of stop loss orders~~
- ~~that most investors in foreign exchange contracts lose money~~
- ~~that potential client exposure to losses includes more than just the margin~~
- ~~that client losses are a gain to the counterparty~~

~~• that there is no contingency fund coverage~~
~~Revised June 1, 2005~~
~~• that the dealer maintains no bonding against fidelity, forgery or fraud (if applicable), and~~
~~• that, if the counterparty fails, the client's equity may be at risk.~~

~~(g) The client agreement shall contain the terms and conditions under which the carrying broker will conduct its operations. The client agreement must be sent to the client and the contract must show the names of all counterparties and dealers.~~

~~(h) Client margin or free credit for all margin accounts must be held by the counterparty in trust and apart from any other funds held for clients other than those of the applicant. The minimum initial margin must be set at not less than 5% of the principal amount of the contract(s), and maintenance margin levels must be set at 3% of the principal amount of the contract(s).~~

~~(i) Concurrent open positions of both long and short in the same currencies for the same client are not permitted.~~

~~(j) Contract fills must be based on an acceptable quotation system. The amount of any add-on, the point difference or gap between the rate charged to a client and the bid or asked prices obtained from the quotation system must be specifically disclosed to the client at a set rate.~~

~~(k) In order to settle disputes, all telephone communications with clients must be recorded and tapes stored in a readily retrievable format and location in British Columbia for a period of not less than two years [*Rules s. 27*].~~

~~(l) The applicant must set and enforce suitable trading limits for each client in light of the client's financial position, investment objectives, strategy and comprehension of risks.~~

~~9.4 Positive Risk Adjusted Capital~~

~~Subject to the paragraph that follows, To be registered as an exchange contracts dealer, an applicant must maintain positive risk adjusted capital, but may calculate risk adjusted capital on the basis of a minimum capital requirement of $100,000 instead of the minimum of $250,000 required by the Joint Regulatory Financial Questionnaire and Report [*Rules s. 19(2), BC Form 33-902F*].~~

~~An exchange contracts dealer that wishes to trade in foreign exchange contracts must calculate risk adjusted capital on the basis of a minimum capital requirement of $600,000.~~

If ~~an An exchange contracts dealer (other than an exchange contracts dealer that trades in foreign exchange contracts) that does not hold client funds or securities and is recognized by the Executive Director as an "introducing broker"~~, it ~~may calculate risk adjusted~~

~~capital on the basis of a minimum capital requirement of $75,000 [*Act s. 36, Rules s. 19(4)*].~~

~~If the dealer wishes to trade in foreign exchange contracts, the maintenance of minimum capital, as contained in the Joint Regulatory Financial Questionnaire and Report [*BC Form 33-902F*], must be calculated as follows. The dealer will calculate margin on the greater of the total long or short futures contracts for each currency. The rate will be 2% to a maximum of $100,000 for market value of outstanding contracts in client and inventory accounts, up to $20 million total market value, plus 0.5% of any excess of market value over $20 million. This amount is recorded as part of line B18 of the monthly and annual financial reports of the dealer and may be covered by a standby subordination agreement with an unrelated financial institution.~~

9.2 – *Description of Limited Dealer – Exchange Contracts Dealer*

A registered exchange contracts dealer is a corporation or partnership that is authorized to trade exclusively in exchange contracts, forward contracts or both, subject to the scope of its conditions of registration [*Rules s 6(2)(c)(i)*]. BC Instrument 31-503 *Exchange Contract Dealers Trading in Commodity Pool Securities* also permits a registered exchange contracts dealer, and individuals registered to trade on its behalf, to trade in Commodity Pool securities without additional registration requirements.

9.3 – *Forex dealers to register with the IDA - Pacific*

A foreign exchange contract or "forex" contract is a security that is a forward contract involving a leveraged agreement between two or more parties to exchange different currencies at a future time or times, other than a contract traded on an exchange recognized under sections 58 or 59 of the *Securities Act*.

A person seeking registration to trade in foreign exchange contracts must register with the IDA - Pacific as an investment dealer [Part 7 of this Policy], and not with the BC Securities Commission as an exchange contract dealer. (www.ida.ca)

9.4 – *Positive Risk Adjusted Capital*

To be registered as an exchange contracts dealer, an applicant must maintain positive risk adjusted capital, but may calculate risk adjusted capital based on a minimum capital requirement of $100,000 instead of the minimum of $250,000 required by the *Joint Regulatory Financial Questionnaire and Report* [*Rules s. 19(2), BC Form 33-902F*].

If an exchange contracts dealer does not hold client funds or securities and is recognized by the Executive Director as an "introducing broker", it may calculate risk adjusted capital based on a minimum capital requirement of $75,000 [*Rules s. 19(4)*].

9.5 Proficiency Requirements for Trading Partner, Director or Officer

To be registered as a trading partner, director or officer of an exchange contracts dealer, the applicant must have successfully completed:

• the Derivatives Fundamentals Course (CSI) [*Rules s. 62*]
• the Futures Licensing Course (CSI) [*Rules s. 62*]

• the Canadian Commodity Supervisors Exam (CSI) [*Rules s. 62*], and
• if the applicant proposes to trade options, the Options Licensing Course and the Options Supervisors Course (CSI) [*Rules s. 62*]

and have at least

• seven continuous years of relevant experience in the securities industry, or
• five continuous years of relevant experience in the securities industry with a dealer that trades in exchange contracts or forward contracts

[*Rules s. 61(1)*].

9.6 Proficiency Requirements for Salesperson

To be registered as a salesperson of an exchange contracts dealer, the applicant must have successfully completed:

• the Derivatives Fundamentals Course [*Rules s. 62*]
• the Futures Licensing Course [*Rules s. 62*] and
• if the applicant proposes to trade options, the Options Licensing Course (CSI) [*Rules s. 62*].

[*Rules s. 61(1)*].

9.7 Proficiency Requirements for Compliance Officer

Refer to Part 6 of this policy for proficiency requirements of compliance officers and branch managers.