

LPS 3-22 Registration Requirements

PART 1 EFFECTIVE DATE AND PURPOSE

1.1 Effective Date

The Executive Director rescinds Local Policy Statement 3-22, dated December 7, 1995, and substitutes this policy statement, effective April 15, 1998.

1.2 Purpose of this Policy

The Act, Regulation and Rules are intended, among other objectives, to ensure that the investing public receives expert advice and ethical treatment from persons trading in, underwriting or advising on, securities and exchange contracts. The legislation provides a legal framework for regulating persons who trade in, underwrite or advise on securities or exchange contracts. This policy statement contains guidelines about the registration provisions in Part 5 of the Act and Rules.

1.3 Refer to the Act, Regulation and Rules

This policy statement sets out the principal requirements for registration under the Act, Regulation and Rules. It also provides guidance as to how the Executive Director is likely to exercise discretion under the legislation in various circumstances. This policy statement is not a substitute for the detailed requirements set out in the Act, Regulation and Rules, and applicants for registration, as well as persons already registered, should refer to those documents. Registrants are reminded that they must also comply with any National Instruments and Local Rules that may apply to them and that may come into effect subsequent to the effective date of this policy statement.

For convenience, references to section numbers of the Act, Regulation and Rules are provided. Copies of the Act, Regulation, Rules, policy statements, forms and other materials may be obtained from the sources listed in Appendix 2 to this policy statement.

1.4 Forms

If a dealer, underwriter or adviser is required to file a form, other than Forms 62, 69 and 70, and has its principal place of business in Canada in a jurisdiction other than British Columbia, or is a member of an exchange or self-regulatory body in Canada, the Executive Director will accept a corresponding form that is required by that jurisdiction, exchange or self-regulatory body in place of the required form.

Similarly, if an individual is required to file a form and acts on behalf of a dealer, underwriter or adviser described in the previous paragraph, the Executive Director will accept a corresponding form that is required by the jurisdiction in which the dealer, underwriter or adviser has its principal place of business, or by the exchange or self-regulatory body of which the dealer, underwriter or adviser is a member, in place of the required form.

However, if the corresponding form required by the other jurisdiction, exchange or self-regulatory body does not contain all material information required by the required form, the Executive Director may require further information to be filed. For example, if an applicant files a personal information form from another jurisdiction that generally corresponds to Form 4 but does not include a consent to a criminal records check, the Executive Director may require the applicant to file a Form 4Z (Consent to a Criminal Records Check).

1.5 Courses

If a course name has been changed or if a course has been replaced by another course, only the new course name is referred to in this policy statement. The Executive Director will consider on a case-by-case basis whether completion of a predecessor course will be considered equivalent to completion of the new course.

1.6 Defined Terms

Terms defined in the Act and Rules, and used in this policy statement, have the same meaning as in the Act and Rules. Terms defined in Appendix 1 to this policy statement are shown in boldface print. Some terms bracketed in italicized print are also defined in Appendix 1 to this local policy statement.

PART 2 CATEGORIES OF REGISTRATION

2.1 Dealer

- (a) A corporation or partnership that trades in securities or exchange contracts in British Columbia must be registered as a dealer [*Act s. 34(1)(a)(i)*] or be exempted from registration. The Executive Director will not register a sole proprietorship as a dealer. The term "trade", defined in section 1(1) of the Act, covers a broad range of activities.

Exemptions from the requirement to register as a dealer are set out in sections 45 to 48 of the Act and section 89 of the Rules.

The Executive Director will classify an applicant for registration as a dealer, according to qualifications and business plan, into one or more of the following categories [*Rules s. 6(2)*]:

broker

investment dealer

securities dealer, or

limited dealer.

Applicants classified as limited dealers will be further classified into one or more of the following categories:

exchange contracts dealer

mutual fund dealer

security issuer

real estate securities dealer, or

scholarship plan dealer.

Refer to Parts 6 - 13 of this policy statement for the requirements of each category of dealer.

- (b) An applicant for registration as a dealer must file with the person referred to in section 2.1(c) of this policy statement the following completed documents and fees:

an "Application for Registration as Dealer, Adviser or Underwriter" [*Act s. 34(2), Form 3*]

the registration fee of \$5,000 for the chief place of business in British Columbia [*Regulation s. 22(1) Item 1(a)*] or, in the case of a security issuer, the registration fee of \$2,500 [*Regulation s. 22(1) Item 2*]

the registration fee of \$100 for each branch office where more than three registered individuals carry on business on behalf of the dealer [*Regulation s. 22(1) Item 1(b)*] (there is no fee for a branch office with less than four registered individuals)

the additional fees, if any, levied by the VSE or the IDA - Pacific, if the applicant files the application with the VSE or the IDA - Pacific

a "Uniform Application for Registration/Approval (B.C.)" for each designated compliance officer (no additional fee) (see section 2.1(l) of this policy statement) [*Act s. 34(2), Form 4*]

a "Uniform Application for Registration/Approval (B.C.)" for each branch manager and administration officer (no additional fee) [*Act s. 34(2), Form 4*]

a "Uniform Application for Registration/Approval (B.C.)" for each investor that is the beneficial owner of securities of the applicant carrying 10% or more of the voting rights attached to all of the outstanding voting securities of the applicant (no fee) [*Act s. 34(2), Form 4*]

if the applicant is applying as a broker, investment dealer, securities dealer or exchange contracts dealer, an audited Joint Regulatory Financial Questionnaire and Report for a period ending no more than 90 days before the date of application [*Act s. 34(2), Rules s. 70(1), Form 9*]

if the applicant is applying as a securities dealer, exchange contracts dealer, mutual fund dealer, real estate securities dealer or scholarship plan dealer, audited financial statements in the

required form for a period ending no more than 90 days before the date of application [*Rules s. 64(1)(a)*]

if the applicant is applying as a broker, investment dealer, securities dealer, exchange contracts dealer, mutual fund dealer, real estate securities dealer or scholarship plan dealer, a Statement of Financial Condition (Audited) relating to the applicant's latest financial year [*Act s.34(2), Rules ss. 50(1)(g)(i) and 70(4), Form 63*]

if the applicant is applying as a mutual fund dealer, an audited Report of Working Capital corresponding to the date of preparation of the financial statements filed with the application [*Rules s. 64(1)(b), Form 62*]

a "Conflict of Interest Rules Statement" or a "Statement and Undertaking", as discussed in section 3.9 of this policy statement [*Act s. 34(2), Rules s. 77, Forms 69 and 70*]

if the applicant is applying as a securities dealer, exchange contracts dealer, mutual fund dealer, real estate securities dealer or scholarship plan dealer, forms of business cards and letterheads to be used by the dealer or any individual acting on its behalf

a copy of the written direction to the applicant's auditor to conduct any audit the Executive Director requires [*Rules s.72(1)*], and

except in the case of an application for registration as a security issuer, a copy of the applicant's policy and procedure manual, prepared in accordance with:

section 4.6 of this policy statement, or

if the applicant is applying for registration as a broker or investment dealer, the requirements of the VSE or IDA - Pacific

[*Act s. 34(2)*].

- (c) An applicant for registration as a dealer must file the "Application for Registration as Dealer, Adviser or Underwriter", the "Uniform Application for Registration/Approval (B.C.)" [*Act s. 34(2), Forms 3 and 4*] and any other required documents with, and make all fees payable to:

the VSE, if the applicant is applying for registration as a broker

the IDA - Pacific, if the applicant is applying for registration as an investment dealer, or

the Commission, if the applicant is applying for registration in any other category of dealer (fees should be made payable to the "British Columbia Securities Commission").

- (d) An applicant for registration as a dealer (other than as a security issuer) must be incorporated, or organized as a partnership, under the laws of Canada or a province or territory of Canada [*Rules s. 15(1)*].
- (e) An applicant for registration as a dealer that is incorporated under the laws of a jurisdiction other than British Columbia must be registered as an extraprovincial company with the Registrar of Companies under the *Company Act*, R.S.B.C. 1996, c. 62 [*Rules s. 15(2)(a)*]. If an applicant is organized as a partnership, it must register its name and other particulars with the Registrar of Companies under the *Partnership Act*, R.S.B.C. 1996, c. 348 [*Rules s. 15(2)(b)*].
- (f) The Executive Director will generally require, as a condition of registration, that an applicant for registration as a dealer establish a business office in British Columbia [*Rules s. 17(1)*]. The applicant must set out the addresses of its head office in British Columbia and any branch offices located in British Columbia as part of its application [*Act s. 34(2)*, *Form 3*].
- (g) An applicant for registration as a broker or investment dealer must participate in the Canadian Investor Protection Fund. An applicant for registration as a securities dealer, exchange contracts dealer, mutual fund dealer or real estate securities dealer must contribute \$15,000 to, and participate in, the Contingency Trust Fund [*Rules s. 23*, *Form 53*].
- (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 a broker or investment dealer must have a financial institution bond for coverage in the amount that the VSE or 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 NIN#97/30) 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 statement 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 statement 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)*].

- (i) For the purpose of determining compliance by a mutual fund dealer, scholarship plan dealer or real estate securities dealer with minimum working capital requirements, the Executive Director will consider amounts owing to non-arm's-length parties (within the meaning of that term in the *Income Tax Act*, R.S.C. 1985, c.1), to be current liabilities of the dealer (regardless of repayment terms) unless an unconditional subordination agreement is executed in the required form and filed with the Executive Director [*Rules s. 25, Forms 60 and 62*]. The Executive Director may require the person executing the unconditional subordination agreement to file a "Uniform Application for Registration/Approval (B.C.)" [*Form 4*] in that person's capacity as an investor. If the person is a corporation or partnership, the Executive Director may require the principal or principals of the corporation or partnership to file a "Uniform Application for Registration/Approval (B.C.)" [*Form 4*].
- (j) The application for registration as a dealer must indicate the date of the applicant's financial year end [*Act s. 34(2), Form 3*].
- (k) An applicant for registration as a dealer that is controlled by or associated with a financial institution, or that proposes to carry on business in a branch office of a financial institution, should consult the Principles of Regulation, and should determine whether it must file a notice of a networking arrangement [*Rules s. 84*].
- (l) An applicant for registration as a dealer must designate at least one individual as a "compliance officer" to ensure compliance with the Act and Rules by the applicant, its partners, directors, officers, salespersons and other employees [*Rules s. 65*]. The compliance officer must be a trading partner, director or officer [*Rules s. 60*] unless that requirement is varied by the Executive Director (see section 5.1(b) of this policy statement).
- (m) The Executive Director will normally grant registration in all of the dealer categories for two years, except for registration as a security issuer, which the Executive Director will normally grant for one year [*Rules s. 67*].
- (n) A registered dealer has an ongoing obligation to notify immediately the person referred to in section 2.1(c) of this policy statement of changes in prescribed information including, but not limited to:

changes in its business address, the addresses of its branch offices, or its address for service

commencement or termination of the employment of partners, directors, or officers, and the reasons for any termination

commencement or termination of the employment of registered salespersons, and the reasons for any termination

charges, indictments or convictions of the dealer or one of its partners, directors or officers

civil findings of fraud, theft, deceit, misrepresentation or similar conduct against the dealer or one of its partners, directors or officers

bankruptcy of the dealer or one of its partners, directors or officers

appointment of a receiver or receiver manager to hold the assets of the dealer or one of its partners, directors or officers, and

intention to carry on any other business than that of dealer

[*Act s. 42(1), Rules s. 74, Forms 7, 7X and 7Z*].

Notification under this section must be accompanied by:

where notification is filed with the Commission, a fee of \$100 [*Regulation s. 22(1) Item 11*], or

where notification is filed with the VSE or IDA - Pacific, such fees as the VSE or IDA - Pacific prescribe.

- (o) A registered dealer must notify the Executive Director of any changes in the dealer's auditor [*Rules s. 72(2)*].

2.2

Underwriter

- (a) A corporation or partnership that acts as an underwriter in a distribution of securities in British Columbia must be registered as an underwriter [*Act s. 34(1)(b)*] or be exempted from registration. The Executive Director will not register a sole proprietorship as an underwriter. The term "underwriter" is broadly defined in section 1(1) of the Act, and the term "distribution", also defined in section 1(1) of the Act, covers a broad range of activities. Registration as a broker, investment dealer or securities dealer does *not* entitle the applicant to act as an underwriter in British Columbia.

A corporation or partnership is exempt from registration as an underwriter unless it acts as an underwriter in a distribution of securities made by prospectus or other offering document specified by the Executive Director [*Rules s. 87*] including:

an offering memorandum used in connection with the distribution of special warrants under a prospectus exemption (i.e., an exemption from section 61 of the Act) [*NIN#96/41*], and

a rights offering circular used in connection with the distribution of rights under the prospectus exemption set out in section 74(2)(7) of the Act [NIN#96/41].

If a distribution is made by prospectus, a person acting as an underwriter for the purposes of that distribution is required to sign the underwriting certificate attached to the prospectus [Act s. 69]. If the prospectus is used to qualify securities issued upon the exercise of special warrants that were previously distributed in reliance upon an exemption from the trading registration and prospectus requirements, Commission staff consider the exempt distribution and the prospectus distribution to be a single distribution. As a result, the person acting as an underwriter must be registered as an underwriter prior to participating in the exempt distribution [NIN#96/41].

A person applying for registration as an underwriter will not be registered as an underwriter unless the person is a member of the Investment Dealers Association of Canada, the VSE, the Alberta Stock Exchange, The Toronto Stock Exchange or the Montréal Exchange [Rules s. 7, LPS 3-44].

Refer to Part 14 of this policy statement for further registration requirements for underwriters.

- (b) An applicant for registration as an underwriter must file with the organization specified in section 2.2(c) of this policy statement:

an "Application for Registration as Dealer, Adviser or Underwriter" [Act s. 34(2), Form 3]

the registration fee of \$5,000 [Regulation s. 22(1) Item 5] or, if the applicant is also registered, or applying for registration, as a broker or investment dealer, \$1,000 [Regulation s. 22(1) Item 6]

the additional fees, if any, levied by the VSE or the IDA - Pacific

a "Uniform Application for Registration/Approval (B.C.)" for each designated compliance officer (no additional fee) [Act s. 34(2), Form 4]

a "Uniform Application for Registration/Approval (B.C.)" for each investor that is beneficial owner of securities of the applicant carrying 10% or more of the voting rights attached to all of the outstanding voting securities of the applicant (no fee) [Act s. 34(2), Form 4]

a copy of the written direction to the applicant's auditor to conduct any audit the Executive Director requires [Rules s. 72(1)], and

a copy of the applicant's due diligence procedures, prepared in accordance with section 4.7 of this policy statement [Act s. 34(2)].

- (c) An applicant for registration as an underwriter must file the required documents with, and make all fees payable to:
- the VSE, if the applicant is also registered, or is applying to be registered, as a broker
 - the IDA - Pacific, if the applicant is also registered, or is applying to be registered, as an investment dealer, or
 - the Commission (fees should be made payable to the British Columbia Securities Commission) if the applicant is a member of the Alberta Stock Exchange, The Toronto Stock Exchange, the Montréal Exchange or the Investment Dealers Association of Canada (and is not a member of the VSE or IDA - Pacific).
- (d) An applicant for registration as an underwriter must be incorporated, or organized as a partnership, under the laws of Canada or a province or territory of Canada [*Rules s. 15(1)*].
- (e) An applicant for registration as an underwriter that is incorporated under the laws of a jurisdiction other than British Columbia must be registered as an extraprovincial company with the Registrar of Companies under the *Company Act*, R.S.B.C. 1996, c. 62 [*Rules s. 15(2)(a)*]. If an applicant is organized as a partnership, it must register its name and other particulars with the Registrar of Companies under the *Partnership Act*, R.S.B.C. 1996, c. 348 [*Rules s. 15(2)(b)*].
- (f) The applicant must set out the address of its office in British Columbia, if any, as part of its application [*Act s. 34(2), Form 3*].
- (g) An applicant for registration as an underwriter must have a financial institution bond for a minimum of \$200,000 coverage or, in the case of an applicant that is also registered, or is applying to be registered, as a broker or investment dealer, coverage in the amount that the VSE or IDA - Pacific require. The bond must cover the applicant, its partners, directors, officers and employees for a minimum of:
- fidelity
 - on-premises loss of property, and
 - in-transit loss of property
- [*Rules s. 21(1)(a)*].
- The partners or directors of the underwriter must state, by certified resolution, that they consider the amount of bonding adequate to cover insurable business risks [*Rules s. 21(1)(b)*].
- (h) The application must indicate the date of the applicant's financial year end [*Act s. 34(2), Form 3*].
- (i) An applicant for registration as an underwriter must designate at least one individual as a "compliance officer" to ensure compliance with the Act and

Rules by the applicant, its partners, directors, officers and employees
[*Rules s. 65*].

- (j) The Executive Director will normally grant registration as an underwriter for two years [*Rules s. 67*].
- (k) A registered underwriter has an ongoing obligation to notify immediately the person referred to in section 2.2(c) of this policy statement of changes in prescribed information including, but not limited to:

changes in its business address, the addresses of its branch offices, or its address for service

commencement or termination of the employment of partners, directors or officers, and the reasons for any termination

charges, indictments or convictions of the underwriter or any of its partners, directors or officers

civil findings of fraud, theft, deceit, misrepresentation or similar conduct against the underwriter or any of its partners, directors or officers

bankruptcy of the underwriter or any of its partners, directors or officers

appointment of a receiver or receiver manager to hold the assets of the underwriter or any of its partners, directors or officers, and

intention to carry on any other business than that of underwriter

[*Act s. 42(2), Rules s. 74, Forms 7, 7X and 7Z*].

Notification under this section must be accompanied by:

where notification is filed with the Commission, a fee of \$100
[*Regulation s. 22(1) Item 11*], or

where notification is filed with the VSE or IDA - Pacific, such fees as the VSE or IDA - Pacific prescribe.

- (l) A registered underwriter must notify the Executive Director of any changes in the underwriter's auditor [*Rules s. 72(2)*].

2.3

Adviser

- (a) A corporation, partnership or sole proprietorship that is in the business of advising another about the purchase or sale of securities, exchange contracts or both must be registered as an adviser [*Act s. 34(1)(c)(i)*]. However, a person may act as an adviser in certain circumstances without registering as an adviser [*Act ss. 44, 47, Rules. 86, NI 32-101, BORs #96/20, #95/16, #95/15 and #92/3, NIN#97/39*].

The exemptions set out in sections 45 and 46 of the Act and section 89 of the Rules are exemptions only from registration as a dealer, and not from registration as an adviser. Advising is, generally speaking, offering an opinion about the investment merits of, or recommending investment in, securities or exchange contracts. Registration to trade in securities or exchange contracts does not entitle a person to act as an adviser on securities or exchange contracts [NIN#97/39].

Subject to restrictions, certain businesses and professionals may act as advisers without registration. For example, an insurer, a savings institution, the Business Development Bank of Canada, a lawyer, an accountant (CA, CGA, CMA), a registered dealer (acting with respect to its research reports) and a publisher or writer (provided that the publication meets certain tests) are exempted from the requirement to register as an adviser except if:

the advice is not solely incidental to the person's principal business, or

the person advertises its business and advising is featured prominently in the advertisements

[Act ss. 44(1), (2)(a), (b), (c), (d), (f) and (3)(a)].

A registered dealer, its registered trading partners, directors or officers and its registered salespersons are also exempted from the requirement to register as an adviser if the advice given is reasonably in fulfillment of the person's duty to ensure the suitability of a proposed purchase or sale for a client [Act ss. 44(2)(e) and (3)(b)]. In other words, these registrants are exempt from the requirement to register as advisers under section 34(1)(c) of the Act provided that advice given to clients is in accordance with the registrant's duty under section 48 of the Rules to know the client and to make recommendations that are consistent with the general investment needs and objectives of the client. However, a registrant cannot rely on the exemption in section 44(2)(e) of the Act to advise clients with respect to securities or exchange contracts for which the registrant is not registered to trade. For example, a mutual fund salesperson may not advise on limited partnership units distributed by way of offering memorandum or other exemption.

Registered brokers, investment dealers and their registered salespersons may also be able to avail themselves of an advising registration exemption, described in section 15.3 of this policy statement.

- (b) The Executive Director will classify an applicant for registration as an adviser according to qualifications and business plan, into one or more of these categories [Rules s. 8]:

portfolio manager

investment counsel, or

securities adviser.

Refer to Parts 15 - 17 of this policy statement for the requirements of each category of adviser.

(c) An applicant for registration as an adviser must file:

an "Application for Registration as Dealer, Adviser or Underwriter" [*Act s. 34(2), Form 3*]

the registration fee of \$3,000 [*Regulation s. 22(1) Item 7(a)*]

the registration fee of \$100 for each branch office where more than three registered individuals carry on business on behalf of the adviser [*Regulation s. 22(1) Item 7(b)*] (there is no fee for a branch office with fewer than four registered individuals)

a "Uniform Application for Registration/Approval (B.C.)" for each designated compliance officer (no additional fee) (see section 2.3(k) of this policy statement) [*Act s. 34(2), Form 4*]

a "Uniform Application for Registration/Approval (B.C.)" for each branch manager and administration officer (no additional fee) [*Act s. 34(2), Form 4*]

a "Uniform Application for Registration/Approval (B.C.)" for each investor that is beneficial owner of securities of the applicant carrying 10% or more of the voting rights attached to all of the outstanding voting securities of the applicant (no fee) [*Act s. 34(2), Form 4*]

a copy of the written direction to the applicant's auditor to conduct any audit the Executive Director requires [*Rules s. 72(1)*]

except in the case of an application for registration as a securities adviser, a copy of the applicant's policy and procedure manual, prepared in accordance with section 4.6 of this policy statement [*Act s. 34(2)*]

if the applicant is applying as a portfolio manager or investment counsel, a "Conflict of Interest Statement" or "Statement of Undertaking", as discussed in section 3.9 of this policy statement [*Act s. 34(2), Rules s. 77, Forms 69 and 70*], and

if the applicant is applying as a portfolio manager or investment counsel, forms of business cards and letterheads to be used by the adviser or any individual acting on its behalf.

(d) An applicant for registration as an adviser must file the "Application for Registration as Dealer, Adviser or Underwriter", the "Uniform Application for Registration/Approval (B.C.)" [*Act s. 34(2), Forms 3 and 4*] and any other required documents with the Commission, and make all fees payable to the "British Columbia Securities Commission".

- (e) Subject to paragraph (g), an applicant for registration as an adviser must be incorporated, or organized as a partnership or sole proprietorship, under the laws of Canada or a province or territory of Canada [*Rules* ss. 15(1) and (3)].
- (f) An applicant that is incorporated under the laws of a jurisdiction other than British Columbia must be registered as an extraprovincial company with the Registrar of Companies under the *Company Act*, R.S.B.C. 1996, c. 62 [*Rules* s. 15(2)(a)]. Subject to paragraph (g), if an applicant is organized as a partnership or sole proprietorship, it must register its name and other particulars with the Registrar of Companies under the *Partnership Act*, R.S.B.C. 1996, c. 348 [*Rules* ss. 15(2)(b) and (3)].
- (g) The applicant must set out the address of its head office in British Columbia and any branch offices located in British Columbia as part of its application [*Act* s. 34(2), *Form* 3]. The Executive Director is prepared to register an adviser that is not resident in British Columbia including an adviser that is resident in another province or territory of Canada and, subject to the conditions set out in section 15.9 of this policy statement, a foreign adviser. In any situation where an adviser is seeking to have registration requirements waived, in part or in whole, the person should discuss the details of its proposal with the Director, Registration prior to making the application.
- (h) An applicant for registration as a portfolio manager or investment counsel must have a financial institution bond for a minimum of \$200,000 coverage. Subject to the paragraph that follows, the bond must cover the applicant, its partners, directors, officers, advising employees 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 an investment counsel 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 16.3 of this policy statement must, as a minimum, maintain coverage relating to the first three bullets above [*Rules* ss. 20(2), 21(1)(a)].

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

- (i) For the purpose of determining compliance with minimum working capital requirements, the Executive Director will consider amounts owing to non-arm's-length parties (within the meaning of that term in the *Income Tax Act*, R.S.C. 1985, c.1) to be current liabilities of the adviser (regardless of repayment terms) unless an unconditional subordination agreement is executed, in the required form, and filed with the Executive Director [*Rules s. 25, Forms 60 and 62*]. The Executive Director may require the person executing the unconditional subordination agreement to file a "Uniform Application for Registration/Approval (B.C.)" [*Form 4*] in that person's capacity as an investor. If the person is a corporation or partnership, the Executive Director may require the principal or principals of the corporation or partnership to file a "Uniform Application for Registration/Approval (B.C.)" [*Form 4*].
- (j) The application must indicate the date of the applicant's financial year end [*Act s. 34(2), Form 3*].
- (k) An applicant for registration as an adviser must designate at least one individual as a "compliance officer" to ensure compliance with the Act and Rules by the applicant, its partners, directors, officers, advising employees and other employees [*Rules s. 65*]. The compliance officer must be an advising partner, director or officer [*Rules s. 60*].
- (l) The Executive Director will normally grant registration in all of the adviser categories for two years [*Rules s. 67*].
- (m) A registered adviser has an ongoing obligation to notify immediately the Executive Director of changes in prescribed information, including, but not limited to:
 - changes in its business address, the addresses of its branch offices, or its address for service
 - commencement or termination of the employment of directors or officers, and the reasons for any termination
 - commencement or termination of the employment of registered advising employees and the reasons for any termination
 - charges, indictments or convictions of the adviser or any of its partners, directors or officers
 - civil findings of fraud, theft, deceit, misrepresentation or similar conduct against the adviser or any of its partners, directors or officers
 - bankruptcy of the adviser or any of its partners, directors or officers
 - appointment of a receiver or receiver manager to hold the assets of the adviser or any of its partners, directors or officers, and
 - intention to carry on any other business than that of adviser

[Act s. 42(2), Rules s. 74, Forms 7, 7X and 7Z].

Notification under this section must be accompanied by a fee of \$100 [Regulation s. 22(1) Item 11].

- (n) In addition, the adviser must immediately notify the Executive Director of any change in the adviser's auditor [Rules s. 72(2)].

2.4

Partner, Director or Officer

- (a) A partner, director or officer of a dealer who trades in securities or exchange contracts on behalf of the dealer must be registered as a trading partner, director or officer [Act s. 34(1)(a)(ii), Rules s. 9(b)].

A partner, director or officer of an adviser who advises on securities or exchange contracts on behalf of the adviser must be registered as an advising partner, director or officer [Act s. 34(1)(c)(ii), Rules s. 10(b)].

- (b) An applicant for registration as a trading partner, director or officer or advising partner, director or officer must file:

- a "Uniform Application for Registration/Approval (B.C.)" [Act s. 34(2), Form 4]

- the registration fee of \$500 [Regulation s. 22(1) Items 3 and 8]

- the additional fees, if any, levied by the VSE or the IDA - Pacific, if the applicant files the application with the VSE or the IDA - Pacific, and

- proof that the applicant meets the proficiency and qualification requirements required by the Executive Director [Act s. 34(2)].

The Executive Director may require an applicant to submit official transcripts or other documents from a course provider or to submit an affidavit attesting to completion of a course or examination.

- (c) An applicant for registration as a trading partner, director or officer or advising partner, director or officer must file any required documents with, and make all fees payable to:

- the VSE, if the applicant is applying for registration as a trading partner, director or officer of a broker

- the IDA - Pacific, if the applicant is applying for registration as a trading partner, director or officer of an investment dealer, or

- the Commission (fees should be made payable to the British Columbia Securities Commission) if the applicant is applying for registration as a trading partner, director or officer of a dealer (other than a broker or investment dealer), or as an advising partner, director or officer of an adviser.

- (d) The Executive Director may refuse an application for registration as a trading partner, director or officer, or as an advising partner, director or officer, if the applicant is not a resident of British Columbia [Act s. 35(2)]. The Executive Director will not require a trading partner, director or officer or an advising partner, director or officer to be a resident of British Columbia if the individual:

meets the requirements set out in section 35(2) of the Act

is employed by a registered broker or investment dealer, if the rules or bylaws of the VSE or IDA - Pacific, respectively, do not require residency, or

in the case of a trading partner, director or officer, is employed by a registered mutual fund dealer that is related to a financial institution, if the Principles of Regulation permit salespersons that are registered in, but are not residents of, British Columbia to deal with clients in British Columbia.

- (e) An individual who is registered as an advising partner, director or officer must not act as a director or officer of a reporting issuer [Rules s. 61(2)]. However, the Executive Director may waive this prohibition if the Executive Director considers that to do so would not be prejudicial to the public interest [Rules s. 17(1)(a)].
- (f) The Executive Director will normally grant registration as a trading partner, director or officer or advising partner, director or officer for two years, except for registration as a trading partner, director or officer of a security issuer, which the Executive Director will normally grant for one year [Rules s. 67].
- (g) The Executive Director may consider an applicant for registration as a trading partner, director or officer or advising partner, director or officer to be unsuitable for registration if the applicant has not reached the age of majority [Act s. 35(1)(a), Age of Majority Act, R.S.B.C. 1996, c. 7].

2.5

Salesperson and Advising Employee

- (a) The Executive Director will only register as a salesperson or advising employee an applicant who is trading or advising, respectively, on behalf of a dealer or adviser that is registered under the Act.

Dealers usually employ one or more salespersons, each of whom must also be registered under the Act as a salesperson [Act s. 34(1)(a)(ii), Rules s. 9(a)]. The relationship between a dealer and its salespersons has traditionally been that of employer and employee. However, the Executive Director is prepared to consider other relationships, including "dependent" contractors and, on a case-by-case basis, "independent" contractors, provided that:

the dealer retains effective supervision and control over the salespersons under the arrangement

the dealer remains responsible and liable for the actions of its salespersons, to the extent that they are acting in their capacity as salespersons

the dealer arranges for bonding or insurance through third parties that ensures adequate coverage for the dealer and its salespersons

arrangements for the payment of referral fees, commissions or other compensation conform with securities legislation, and

the public interest is not otherwise compromised by the manner in which the relationship is structured

[NIN#97/30].

Registration of personal companies as salespersons is not contemplated at this time.

The Executive Director will classify an applicant for registration as a salesperson, according to qualifications, into one of the following categories:

registered representative, or

investment adviser

[*Rules s. 9*].

Advisers sometimes employ individuals, who are not partners, directors or officers of the adviser, to advise on securities or exchange contracts or both on behalf of the adviser. These individuals must be registered as advising employees [*Act s. 34(1)(c)(ii), Rules s. 10(a)*]. If the proposed relationship between an adviser and its advising employees is other than employer and employee, the adviser should discuss the proposed relationship with the Director, Registration.

(b) An applicant for registration as a salesperson or advising employee must file:

a "Uniform Application for Registration/Approval (B.C.)" [*Form 4*]

the registration fee of \$500 [*Regulation s. 22(1) Items 3, 4 and 8*]

the additional fees, if any, levied by the VSE or the IDA - Pacific, if the applicant files the application with the VSE or the IDA - Pacific, and

proof that the applicant meets the proficiency and qualification requirements required by the Executive Director [*Act s. 34(2)*].

The Executive Director may require an applicant to submit official transcripts or other documents from a course provider or to submit an affidavit attesting to the completion of a course or examination.

- (c) An applicant for registration as a salesperson or advising employee must file any required documents with, and make all fees payable to:
- the VSE, if the applicant is applying for registration as a salesperson of a broker
 - the IDA - Pacific, if the applicant is applying for registration as a salesperson of an investment dealer, or
 - the Commission (fees should be made payable to the British Columbia Securities Commission) if the applicant is applying for registration as a salesperson of a dealer (other than a broker or investment dealer) or as an advising partner, director or officer of an adviser.
- (d) The Executive Director will not normally register a salesperson unless that person will work full-time as a salesperson [*Rules* s. 63]. The Executive Director may consent to less than full-time employment if an individual is carrying on an outside activity, including a hobby, recreational or cultural activity, that will not interfere, or create a conflict of interest, with the individual's duties and responsibilities as a salesperson. In addition to the issue of conflict of interest, the Executive Director will look at the individual's ability to maintain proficiency and provide an appropriate level of client service. The Executive Director may consent in situations such as the following:
- the individual is employed as a salesperson by a mutual fund dealer in an area that is so remote and sparsely populated that full-time employment as a salesperson in that area is not economically feasible
 - the individual is licensed as an insurance agent or insurance salesperson under the *Financial Institutions Act*, R.S.B.C. 1996, c. 141 [*LPS 3-16*]
 - the individual is licensed as an agent or "salesman" under the *Real Estate Act*, R.S.B.C. 1996, c. 397, and is employed by a real estate securities dealer
 - the individual is dually employed by a financial institution and a dealer that is related to the financial institution [*Principles of Regulation*]
 - the individual is enrolled full time as a student in a business, commercial or financial course and is intending to continue a career in the investment business
 - the individual is employed other than as a salesperson for six months or less during the calendar year, or
 - the individual is employed as a fee-for-service financial planner, provided that the individual has been permitted by the Executive

Director to hold herself or himself out as a "financial planner" in accordance with section 3.6(b) of this policy statement.

The Executive Director may require the employing dealer to acknowledge, and consent in writing to, a part-time salesperson's outside activities.

- (e) The Executive Director may refuse an application for registration as a salesperson, or as an advising employee, if the applicant is not a resident of British Columbia [Act s. 35(2)]. The Executive Director will not require a salesperson or an advising employee to be a resident of British Columbia if the individual:

meets the requirements set out in section 35(2) of the Act

is employed by a registered broker or investment dealer, if the rules or bylaws of the VSE or IDA - Pacific, respectively, do not require residency, or

in the case of a salesperson, is employed by a registered mutual fund dealer that is related to a financial institution, if the Principles of Regulation permit salespersons that are registered in, but are not residents of, British Columbia to deal with clients in British Columbia.

- (f) An individual who is registered as a salesperson or advising employee must not act as a director or officer of a reporting issuer [Rules s. 61(2)].
- (g) If a dealer terminates a salesperson's employment, the salesperson's registration is suspended [Act s. 40]. The Executive Director will also require that an advising employee be employed by a registered adviser in order to maintain registration [Rules s. 17].
- (h) An applicant for registration as a salesperson of a security issuer must have a surety bond of a minimum of \$1,000 covering the applicant [Rules s. 21(2)].
- (i) The Executive Director will normally grant registration as a salesperson or advising employee for two years, except for registration as a salesperson of a security issuer, which the Executive Director will normally grant for one year [Rules s. 67].
- (j) The Executive Director may consider an applicant for registration as a salesperson or advising employee to be unsuitable for registration if the applicant has not reached the age of majority [Act s. 35(1)(a), Age of Majority Act, R.S.B.C. 1996, c. 7].
- (k) Once registered, a salesperson or advising employee has an ongoing obligation to notify immediately the Executive Director or, if the individual trades on behalf of a broker or investment dealer, the VSE or IDA - Pacific respectively, of changes in prescribed information including, but not limited to:

changes in the address for service in British Columbia or in any business address of the salesperson or advising employee

changes in employment of the salesperson by a registered dealer or of the advisory employee by a registered adviser

changes in the name of the salesperson or advising employee

charges, indictments or convictions of the salesperson or advising employee

civil findings of fraud, theft, deceit, misrepresentation or similar conduct against the salesperson or advising employee

bankruptcy of the salesperson or advising employee, and

appointment of a receiver or receiver manager to hold the assets of the salesperson or advising employee

[*Act s. 42(3), Form 7A*].

Notification under this section must be accompanied by:

where notification is filed with the Commission, a fee of \$100 [*Regulation s. 22(1) Item 11*], or

where notification is filed with the VSE or IDA - Pacific, such fees as the VSE or IDA - Pacific may prescribe.

PART 3 CONDITIONS OF REGISTRATION

3.1 Power to Waive, Vary or Add to Provisions Respecting Registration

This policy statement sets out a number of provisions of general application respecting registration of registrants or a group of registrants. However, the Executive Director may waive, vary or add to provisions respecting the registration of a registrant or group of registrants, including those related to:

capital and bonding

record keeping and reporting

the maintenance of client accounts

proficiency and qualification

branch managers and administration officers

duration of registration

annual financial statements, and

other financial reports

[*Act s. 36(1), Rules s. 17(1)*].

This power of the Executive Director is subject to certain "public interest" tests [*Rules s. 17(1)*]. If the Executive Director proposes to vary or add to provisions respecting registration, the registrant (or group of registrants) is entitled to an opportunity to be heard, as described in section 3.12 of this policy statement [*Rules s. 17(2)*].

3.2 Duty to Deal Fairly, Honestly and in Good Faith

A registrant must deal fairly, honestly and in good faith with clients. If the registrant is an individual, the registrant must also deal fairly, honestly and in good faith with the clients of the dealer or adviser for which the registrant works or acts as a partner, director or officer [*Rules s. 14*].

Registrants are advised that, as part of this duty, they are required to make certain disclosures to their clients [see for example, *Rules s. 50(3)*, *NIN#87/67*, *NIN#96/10*]. Registrants should consult the Act, Rules, notices, blanket orders and policy statements for additional disclosure requirements and considerations.

3.3 Referral Fees and Commission Splitting

- (a) A registrant must disclose to a client the fact that the registrant receives from, or pays to, another person a fee or other compensation for referral of the client [*Rules s. 53(1)*]. If the registrant receives such compensation, the registrant must make the disclosure at the time the referral is made by the registrant or as soon as practicable after that time [*Rules s. 53(3)(a)*]. If the registrant pays such compensation, the registrant must make the disclosure at the time the person referred to becomes a client of the registrant or as soon as practicable after that time [*Rules s. 53(3)(b)*]. The disclosure must, as a minimum, describe how the fee or other compensation is determined [*Rules s. 53(3)*].
- (b) A registrant must disclose to a client the fact that the registrant receives from, or pays to, another person a commission or commission-like compensation related to the purchase or sale of a security or exchange contract on behalf of the client [*Rules s. 53(2)*]. The registrant must make the disclosure at the time the purchase or sale is made or as soon as practicable after that time and the disclosure must, as a minimum, describe how the commission or other compensation is determined [*Rules s. 53(3)*]. If the arrangement is ongoing, the registrant is only required to disclose the arrangement, and any subsequent material changes to the arrangement, prior to the first purchase or sale for a client under the arrangement [*Rules s. 53(4)*].
- (c) The disclosure described in paragraph (b) is not required if the compensation is already disclosed in accordance with paragraph (a) [*Rules s. 53(2)*]. Nor is such disclosure required if the compensation is paid from or to the registrant's partners, directors, officers or salespersons, another registered dealer, or a person registered as a dealer in another jurisdiction [*Rules s. 53(5)*].
- (d) The payment of a commission or fee from or to a non-registrant indicates registrable activity. Accordingly, payment should not be made without determining in advance whether the underlying activity for which the

payment is being made constitutes trading and, if so, requires registration. If in doubt, registrants are encouraged to contact the Director, Registration.

3.4 Contingent Commissions and Fees

A registrant may only charge contingent commissions or fees based on profits or performance with the client's prior informed written consent [*Rules s. 54*].

3.5 Communication with the Public

Registration is required in order to trade in, or advise on, securities or exchange contracts [*Act s. 34*]. The definition of "trade" is broad enough to include advertising and other solicitations made in furtherance of trading in securities or exchange contracts [*Act s. 1(1)*]. Accordingly, dealers, advisers and their representatives must clearly undertake all such forms of communication with the public under the dealer's or adviser's registered name. Communications should leave no uncertainty as to the dealer or adviser through which a prospective client will contract to receive trading or advising services.

Communications should be made in the name of the dealer or adviser even if there is an agreement between the dealer or adviser and a registered individual that suggests that the latter is something other than an employee of the dealer or adviser. This applies even if the individual is, with the consent of the dealer or adviser and the permission of the Executive Director, conducting activities ancillary to the individual's registrable activities through a personal company that the individual has established for that purpose.

A dealer's or adviser's signs must be displayed prominently at each location in British Columbia where the dealer or adviser regularly conducts business. Signs, telephone greetings, letterhead, business cards, Internet websites, advertising and other communications with the public must include:

- the registered dealer name or adviser name, appearing prominently

- if two or more business names are being used in a communication, the registered dealer or adviser name appearing in at least equal size and prominence (including location on a page) as other business names in the communication, and

- if two or more business names are being used in a communication, clear disclosure of the differing products or services offered by each business, where such information is not evident from the names of the businesses.

[*NIN#97/30*].

Business names other than that of the registrant may be used only in the following circumstances:

- if a registrant is also licensed to sell insurance products, the business name or trademark registered with the Insurance Council of British Columbia may be used

- if the registrant's relationship to the division name or trademark is clearly disclosed in the communication, a name representing an unincorporated

division or registered trademark of the registered dealer or adviser may be used

if a registrant is formally recognized by the Executive Director as meeting the requirements of subsection 3.6(b) of this policy statement, the financial planning business name registered with the Registrar of Companies may be used, and

if a registrant is dually employed by a financial institution and a registered dealer, or where a networking arrangement exists between a financial institution and a registered dealer, the name of the financial institution may be used (provided that the Executive Director does not object to the networking arrangement).

[NIN#97/30].

References in public communication inferring independence from the registered dealer or adviser must be avoided. If two or more business names are used in a communication, phrases such as "associated with" or "licensed through" may mislead the public.

Certain titles, if used by individuals or companies in communication without appropriate proficiency and registration, may mislead the public [*Rules s. 11*]. A registrant should contact the Director, Registration prior to use of any title other than that appearing on its registration certificate.

3.6

Holding Out

- (a) A person who represents that that person is registered under the Act must, in making the representation, specify the person's category of registration under the Act or Rules [*Act s. 54(1)(b)*]. A person must not use the words "portfolio manager", "investment counsel", "securities adviser", "investment adviser" (or "investment advisor") or other words in connection with the person's business in a way that is likely to deceive or mislead the public about the proficiency and qualifications of the person to undertake the business of advising another with respect to investment in, or the purchase or sale of, securities or exchange contracts [*Rules s. 11(c)*], or in a way likely to give a false impression that the person is authorized to act as a portfolio manager, investment counsel, securities adviser or investment adviser, as the case may be [*Rules s. 11(d)*].
- (b) The Executive Director will not normally register a trading partner, director or officer or a salesperson if the individual intends to hold herself or himself out as a "financial planner" or by similar title, or as having proficiency in financial planning, unless the individual satisfies the Executive Director that the individual:

is licensed by the Financial Planners Standards Council of Canada to use the designation "Certified Financial Planner" or "CFP", or

has similar qualifications and, where appropriate, is subject to similar continuing education requirements.

The Executive Director considers that members of the following organizations who hold the following designations meet the criteria set out in the preceding bullet and are eligible to apply to the Executive Director for approval, on a case-by-case basis, to hold themselves out as financial planners:

Association for Investment Management and Research	CFA
Canadian Association of Financial Planners	RFP
Canadian Institute of Chartered Life Underwriters and Chartered Financial Consultants	CLU
Canadian Institute of Financial Planning	Chartered Financial Planner
Canadian Securities Institute	CIM
Certified General Accountants Association of British Columbia or of the Canadian province or territory in which the applicant is resident	CGA
Certified Management Accountants Society of British Columbia or of the Canadian province or territory in which the applicant is resident	CMA
Institute of Canadian Bankers	P.F.P.
Institute of Chartered Accountants of British Columbia or of the Canadian province or territory in which the applicant is resident.	CA

These requirements are minimum requirements and are subject to change.

If the individual intends to provide financial planning services on a fee-for-service basis, the individual must also:

satisfy the Executive Director that the individual has "errors and omissions" insurance for a minimum of \$1,000,000 coverage

file, as part of the individual's application for registration, a copy of a client disclosure statement that discloses:

the name(s) of the company or companies through which the individual will provide clients with financial planning services and the name(s) of the registered dealer(s) or adviser(s) through which the individual holds her or his registration under the Act

the means by which the financial planner generates income, including a schedule of fees

that the client is entitled to go elsewhere to implement any plan that the financial planner prepares for the client

if the client wishes the financial planner to implement a plan, that the client will become a client of the registered dealer through which the financial planner holds her or his registration under the Act, and that the financial planner will receive commissions from the registered dealer as a result of the implementation of the plan

if the financial planner receives any commissions or referral fees, disclosure in accordance with statutory requirements (see section 3.3 of this policy statement)

if the individual is also registered as an insurance salesman or agent under the *Financial Institutions Act*, R.S.B.C. 1996, c.141, that any insurance products sold by the individual to the client will also generate commissions to the financial planner [LPS 3-16]

the individual's category of registration under the Act and Rules, and

other licenses, if any, held by the individual, including licenses under the *Financial Institutions Act*, R.S.B.C. 1996, c. 141, and the *Real Estate Act*, R.S.B.C. 1996, c. 397

undertake to provide clients with a copy of the disclosure statement described above

send the disclosure statement described above to each client annually and whenever there is a change in the circumstances that are required to be disclosed

file a copy of the disclosure statement described above with the Executive Director, whenever there is a change in the circumstances that are required to be disclosed, and

file, as part of the person's application for registration, a copy of the business cards and letterhead that the person proposes to use [Act s. 34(2)].

3.7 Trading in the "Exempt Market"

- (a) There are a number of exceptions to the general prohibition against trading in securities or exchange contracts in British Columbia without registration, usually with a corresponding prospectus exemption [*Interim LPS 3-24*]. These "exempt market" transactions include private placements with a minimum value of \$97,000 [Act ss. 45(2)(5) and 74(2)(4), Rules ss. 90(1) and 129(1)], or a minimum value of \$25,000 where the trade is to a sophisticated purchaser and an offering memorandum is delivered to the purchaser [Rules ss. 89(b), 128(b) and 133].
- (b) Subject to limited exceptions [Act s. 44], the registration exemptions set out in the Act and Rules (discussed briefly in section 2.3(a) of this policy

statement) provide relief only from the requirement for registration to trade and do not provide relief from the requirement for registration to act as an adviser. A salesperson or other registrant who intends to rely upon any of the trading registration exemptions (and prospectus exemptions) set out in the Act and Rules should discuss the matter with the branch manager or compliance officer to whom the salesperson reports, or with legal counsel. The discussion should include the scope of the exemption, required documentation, filing requirements (if any) and fees. Inquiries to the Commission about the application of exemptions set out in the Act and Rules should be directed to the Director, Exemptions and Orders [see *NIN#97/39*].

- (c) Where a registered salesperson trades in the exempt market, the product must be approved by the registered dealer through which the salesperson holds registration, and the trades must be recorded in the books and records, and made under the supervision of that dealer. The "know your client" and suitability rules apply to each purchase or sale in the exempt market [*Rules s. 48*] and such transactions must be supervised by a compliance officer or branch manager [*Rules s. 47*]. Trading in the exempt market by a registered salesperson or other registrant "off book" may result in the suspension of the registrant's registration or other disciplinary action. The registered dealer through which the salesperson holds registration, and the compliance officer of the dealer, may be held accountable for the activities of salespersons of the dealer in the exempt market.

3.8

Interest in Other Registrants

- (a) Except as expressly permitted, the following persons may not have a direct or indirect interest in any other dealer, underwriter or adviser:

a registered dealer, underwriter or adviser

an associate of a registered dealer, underwriter or adviser

a partner, director or officer of a registered dealer, underwriter or adviser, whether the individual is registered or not, and

a registered salesperson of a dealer or a registered advising employee of an adviser

[*Rules s. 16(1)*].

The restrictions described above do not prohibit a salesperson or a partner, director, or officer of a dealer, underwriter or adviser, as applicable, from having an interest in:

that dealer, underwriter or adviser, or

a dealer, underwriter or adviser that is a "related party" (as defined in section 75(1) of the Rules) of the dealer, underwriter or adviser referred to in the preceding bullet

[*Rules s. 16(2)*].

- (b) A registered dealer (other than a security issuer), underwriter or adviser must notify the Executive Director immediately if another person is about to acquire, or has acquired, beneficial ownership of 10% or more of any class of the registrant's voting securities [*Rules s. 73*].
- (c) A registered dealer (other than a security issuer), underwriter or adviser that intends to carry on any business other than that of a dealer, underwriter or adviser, respectively, must give the Executive Director written notice at least 30 days before the registrant begins carrying on the other business [*Rules s. 74(1)*].

3.9 Conflict of Interest

A registered dealer (other than a security issuer), underwriter and adviser must file, and furnish to its clients, a "Conflict of Interest Rules Statement" in the required form [*Rules s. 77(1), (2), (3), Form 69*].

However, if the registrant does not engage in activities as an adviser, dealer or underwriter in the circumstances set out in sections 78, 79, 81, 82 or 83 of the Rules, the registrant may be exempted from the requirement to file a "Conflict of Interest Rules Statement", and, if so, must instead file a "Statement and Undertaking" in the required form [*Rules s. 77(4), Form 70*]. Registrants that engage only in activities that fall within the exceptions contained in sections 78(3), (4) or (5), 79(2), 81(2), 82(2) or 83(3) of the Rules are able to rely on the exemption.

3.10 Writing and Rewriting Courses or Examinations

In addition to any other requirement that the Executive Director imposes, an individual applicant must write or rewrite a required course or examination, in the following circumstances:

if the applicant has previously surrendered registration under section 41 of the Act, and applies for registration three or more years after the date of surrender [*Rules s. 62(a)*]

if the applicant was not previously registered in British Columbia and applies for registration three or more years after successfully completing a course or examination required for a particular category of registration [*Rules s. 62(b)*], or

if the applicant is registered in a more restricted category (such as salesperson of a mutual fund dealer), and the applicant applies for registration in a less restricted category (such as salesperson of a securities dealer) three or more years after completing the required courses and examinations [*Rules ss. 60(1) and 61(1)*].

In addition to individuals applying for registration, the requirements of this section apply to unregistered compliance officers.

The Executive Director has provided relief from the requirements of this section for individuals employed by brokers and investment dealers, if the individuals comply with the writing and rewriting requirements of the VSE or IDA - Pacific, as applicable [*BOR#95/6*].

3.11 Application for Renewal of Registration

The Executive Director will not "backdate" a certificate of registration under any circumstances. To facilitate renewal of registrations, the Executive Director, VSE or IDA - Pacific, as appropriate, will make efforts to mail to each registrant a "Uniform Application for Renewal of Registration", plus a fee checklist, at least six weeks before the expiry of current registration [*Form 5*].

Whether or not a registrant receives a "Uniform Application for Renewal of Registration", it is the responsibility of the registrant to ensure that the registrant applies to renew its registration at least 30 days before expiry of its current registration. If there is a "gap" in registration, the registrant will not be permitted to carry on, or resume, any of the activities for which registration is required until a registration certificate has been issued [*Form 5*].

Together with the "Uniform Application for Renewal of Registration", the Executive Director will make efforts to mail to dealers, underwriters (except those registered by the VSE or IDA - Pacific) and advisers a notice requiring certain information to update the registrant's file, including:

addresses of branch offices in British Columbia, the names of the responsible branch managers or administration officers for each branch in British Columbia, and the names of all registered individuals who carry on business in each branch in British Columbia

the names of partners, directors and officers, whether or not registered, and

the names and addresses of the financial institutions used by the dealer, underwriter or adviser in British Columbia

[*Form 5*].

All dealers (except security issuers), underwriters and advisers may also be asked to file a current "Conflict of Interest Rules Statement" or "Statement and Undertaking" as part of their renewal application as discussed in section 3.9 of this policy statement [*Rules s. 77, Forms 69 and 70*].

3.12 Opportunity to be Heard

The Supervisor of Registration or other Commission staff may recommend to the Executive Director that an application to grant, renew, reinstate or amend a registration under the Act be refused. Commission staff may also recommend to the Executive Director that registration or renewal be restricted, or that conditions be imposed on registration. Commission staff will provide, in writing, the reasons for the recommendation and, before the Executive Director refuses an application, restricts a person's registration, or imposes a condition of registration, the applicant has an opportunity to be heard [*Act ss. 35(3) and 36(2)*].

An applicant or person registered under the Act who wishes to be heard before the Executive Director has made a final decision should provide written notice to the Director, Registration within 15 days after the date of the letter that sets out

Commission staff's proposed recommendation. Applicants should include brief reasons why the application should not be refused or a condition of registration imposed. No final decision will be made until the 15 days has passed.

The Director, Registration has the authority to hear applicants or registrants in place of the Executive Director.

3.13 Hearing and Review

If, after an opportunity to be heard, a person's application for registration, renewal or reinstatement of registration or amendment to registration is refused by the Executive Director, or restrictions or conditions are placed or proposed to be placed on the person's registration by the Executive Director, that person is entitled to a hearing and review of the decision by the Commission. Persons requesting a hearing and review should provide written notice to the Secretary, British Columbia Securities Commission, within 30 days after the date on which the refusal letter, or letter setting out the restrictions or conditions, was sent. A fee of \$25 must accompany the notice [*Act s. 165(3), Regulation s. 22(1) Item 31, LPS 3-12*].

PART 4 RECORD KEEPING AND POLICY AND PROCEDURE MANUAL

4.1 Record Keeping Requirements

A dealer, underwriter or adviser must keep in British Columbia a complete and accurate record of its business transactions and financial affairs conducted in the province and, if its head office is in British Columbia, its business transactions and financial affairs conducted outside of the province, including the following reports [*Rules s. 27, NP 16*]:

account opening documentation [*Rules ss. 47 and 48*] including, but not limited to, documents prepared in furtherance of the "know your client" and suitability rules [*Rules s. 48*] and other documents prepared in compliance with provisions in the registrant's policy and procedure manual that deal with opening new accounts (see section 4.6(d) of this policy statement)

itemized daily blotters [*Rules s. 29*]

detailed ledgers [*Rules s. 30*]

clients' itemized ledger accounts [*Rules s. 31*]

securities and exchange contracts position report [*Rules s. 32*]

record of each order and instruction [*Rules s. 33*]

confirmation and statement record [*Rules s. 34*]

record of account [*Rules s. 39*]

record of options granted or guaranteed by the registrant [*Rules s. 40*]

monthly capital record [*Rules s. 41*], and

standards of fairness (portfolio managers/investment counsel) [*Rules s. 44(5)*].

The Executive Director will only require a registrant to keep those records that are relevant to its category of registration [*Rules s. 27(2)*]. Detailed record keeping requirements are set out in Division (5) of Part 5 of the Rules.

Providing electronic access to trading records will satisfy the requirement to keep records in British Columbia, subject to certain conditions [*Rules s. 28*]. A dealer that carries on business in more than one jurisdiction could, for example, centralize its records electronically and organize its affairs so that, although records are not physically held in British Columbia, they are readily available in the province. The records must be provided in an accurate and intelligible form and must be capable of being printed within a reasonable time, to any person lawfully entitled to examine the information [*Rules s. 28(c)*].

4.2 Summary of Distributions - Underwriter's Record Keeping Requirements

An underwriter should maintain for inspection by the Executive Director a summary of all distributions in which it acted as underwriter during its current period of registration, including, for each distribution:

- the name of the issuer

- the total number and type of securities distributed (including securities underwritten or sold on a "best efforts" basis by other underwriters and dealers that participated in the distribution)

- the total value of securities distributed (including securities underwritten or sold on a "best efforts" basis by other underwriters and dealers that participated in the distribution)

- the number and value of the securities referred to in the preceding two bullets that were underwritten or sold on a "best efforts" basis by the underwriter

- the name of any individual who conducted a due diligence review on behalf of the underwriter, and

- a description of the steps that were taken to carry out the due diligence reviews referred to in this section.

On request, an underwriter must file the summary of distributions referred to above with the Executive Director. Additional requirements for Junior Issuer Underwriters are set out in LPS 3-17.

The Executive Director, VSE or IDA - Pacific, as the case may be, in reviewing prior distributions involving the underwriter, may identify problems with the underwriter's performance that could affect the underwriter's suitability for renewal of registration.

4.3 Financial Statements

A dealer, underwriter or adviser must file with the Executive Director the following financial statements, prepared in accordance with generally accepted accounting principles [*Rules s. 3(3)*] and approved by its directors, general partners or sole proprietor [*Rules s. 69(2)*]

a registered dealer (except a security issuer), underwriter and adviser must file audited annual financial statements within 90 days of the end of its financial year [*Rules ss. 3(4) and 69(1)(a)*], and

a registered limited dealer (except an exchange contracts dealer or security issuer) and, if required by the Executive Director as a condition of registration, an adviser, must file:

during its initial two-year period of registration, unaudited interim financial statements within 30 days of the end of each financial month [*Rules s. 69(1)(b)*], and

during subsequent periods of registration, unaudited interim financial statements within 30 days of the end of each financial quarter [*Rules s. 69(1)(b)*].

4.4 Other Financial Reports

A dealer, underwriter or adviser must file with the Executive Director the following financial reports, approved by its directors, general partners or sole proprietor [*Rules s. 70(7)*]:

a broker, investment dealer, securities dealer, exchange contracts dealer and every person registered solely as an underwriter must file an audited Joint Regulatory Financial Questionnaire and Report within 90 days of the end of its financial year [*Rules ss. 70(1), (5) and (6)(a), Form 9*]

a securities dealer, exchange contracts dealer and every person registered solely as an underwriter must file an unaudited Report of Risk Adjusted Capital:

during its first two years of registration, within 30 days of the end of each month [*Rules ss. 70(2)(a) and (6)(b), Form 9A*], and

after that, within 30 days of the end of its first, second and third financial quarters [*Rules ss. 70(2)(b) and (6)(b), Form 9A*]

a mutual fund dealer and, if required by the Executive Director as a condition of registration, a real estate securities dealer, scholarship plan dealer, security issuer, portfolio manager, investment counsel and securities adviser must file an unaudited Report of Working Capital:

during its first two years of registration, within 30 days of the end of each month [*Rules ss. 17(1), 70(3)(a) and (6)(b), Form 62*], and

after that, within 30 days of the end of its first, second and third financial quarters [*Act s. 36(1), Rules ss. 17(1), 70(3)(b) and (6)(b), Form 62*]

if required by the Executive Director as a condition of registration, a mutual fund dealer, real estate securities dealer, scholarship plan dealer, security issuer, portfolio manager, investment counsel and securities adviser must file an audited Report of Working Capital, within 90 days of the end of its financial year [*Act s. 36(1), Rules s. 17(1), Form 62*], and

a dealer (except a security issuer) must file an audited Statement of Financial Condition annually, relating to the dealer's latest financial year, within 90 days of the end of its financial year [*Rules ss. 70(4), (5) and (6)(a), Form 63*].

4.5 Members to File with VSE or IDA - Pacific

A member of the VSE or IDA - Pacific is required to file, with the Executive Director, a copy of an audited annual financial statement or report that is filed with the VSE or IDA - Pacific within seven days of filing the statement or report with the VSE or IDA - Pacific [*Rules ss. 69, 70 and 153*].

4.6 Policy and Procedure Manual

A dealer, portfolio manager or investment counsel must establish and apply written prudent business procedures for dealing with clients in compliance with the Act, Regulation and Rules [*Rules s. 44*]. These procedures must be set out in a policy and procedure manual, prepared and maintained in accordance with this section.

Brokers and investment dealers must maintain a manual that substantially complies with the provisions set out in this section, but should contact the VSE or the IDA - Pacific, as appropriate, for their specific requirements.

The manual should encompass the following, if applicable:

(a) Organization and general provisions of the applicant, including:

procedures for accumulating and maintaining a complete list of associated parties, connected parties and related parties of the dealer or adviser (current list to be included in the manual) [*Rules s. 77, Form 69*]

details of the applicant's commission structure, including policies regarding commission splitting and payments to unregistered individuals or entities [*Rules s. 53*]

procedures for ensuring that all advertising is forwarded to the designated compliance officer for approval prior to use (see sections 3.5 and 3.6 of this policy statement)

provisions for designating a compliance officer, branch manager or administration officer to review, or supervise the review of, transactions made on behalf of client accounts, and procedures to cover periods when this individual is unavailable to perform the required duties [*Rules s. 47*], and

policies and procedures for providing other significant operational controls (e.g., reconciliation of client orders to confirmations, safeguarding of assets, handling of cash, cheques or securities by employees);

(b) Record keeping by the applicant, including:

policies for identifying who is responsible for keeping records of the applicant's business transactions, financial affairs [*Rules s. 27*] and financial statements and reports (see sections 4.3 and 4.4 of this policy statement)

policies and procedures describing how records will be stored (e.g., mechanically, electronically) and the precautions that will be taken to guard against their loss or falsification [*Rules s. 28(b)*], and

policies stating where [*Rules s. 27*] and for how long [*Rules s. 42*] records will be kept;

(c) Registration and conduct of registered individuals, including:

policies and procedures to ensure that employees are adequately supervised and comply with the requirements of the Act, Regulation and Rules and any policies established by the dealer, portfolio manager or investment counsel

policies and procedures for ensuring that individuals trade in or advise on securities or exchange contracts only in accordance with the registration requirements or exemptions set out in the Act and Rules

procedures for ensuring that the forms of business cards and letterheads to be used by partners, directors, officers, salespersons, advising employees and other employees are approved, prior to use, by the compliance officer and, where requested, reviewed by the Executive Director

policies and procedures regarding ongoing training and education of employees

procedures for ensuring that employees are advised of significant changes in the legislative or other requirements that apply to them

provisions for ensuring compliance with the requirement to obtain the consent of the Executive Director to work other than full-time or to maintain outside employment [*Rules s. 63*], and

procedures for managing the termination of a registered individual, including:

return of the individual's registration certificate to the Executive Director [*Act s. 41*]

filing of a "Uniform Termination Notice (B.C.)" [Form 7Z] for the individual with the Executive Director [Act ss. 42(1)(b) and (c), 42(2)(a) and (b)], and

arrangements, if any, for continuing service to the individual's clients (e.g., clarification of whether an individual may take her or his "client book" upon termination, arrangements for notifying clients of the individual's termination, etc.);

(d) policies and procedures for the opening of new accounts, including:

standards of inquiry concerning the identity, creditworthiness and reputation of clients [Rules s. 48(1)(a)]

standards of inquiry for determining the general investment needs and objectives, including tolerance to risk, of the client [Rules s. 48(1)(b)] and provisions for the update of documentation upon changes in a client's circumstances

procedures for distributing disclosure statements to clients (e.g., "Conflict of Interest Rules Statement" [Form 69], referral fees [Rules s. 53], leverage risks [NIN#87/67], dual licensing [LPS 3-16])

provisions for obtaining instructions from clients with respect to shareholder communications [NP 41]

procedures to ensure that client signatures are obtained upon opening of an account and in other appropriate circumstances [NIN#93/8]

procedures to ensure that no account is opened without the prior written approval of the compliance officer, branch manager or administration officer [Rules s. 47]

provisions for ensuring suitability of proposed purchases or sales for clients in accordance with documented needs and objectives [Rules s. 48]

policies and procedures for managing the operation and supervision of discretionary and managed accounts, including provisions for ensuring that these accounts are operated only by persons registered as portfolio managers [NIN#95/7], and

policies and procedures relating to:

registration of client securities

mailing of statements, confirmations and prospectuses to clients [Rules ss. 36, 37 and 38]

operation and supervision of margin accounts

holding of client free credit balances in trust [*Rules s. 57(2)*]

holding of client subscriptions and prepayments in interest-bearing trust accounts [*Rules s. 58, NP 39*]

notification of pending expiry of options, warrants or exchange contracts

notification of pending delivery of cash or securities, and

handling of client complaints;

(e) Trading in an applicant's own trading accounts, including:

procedures for ensuring compliance with conflict of interest rules [*Rules Part 5 Division 11*], including limitations on trading if the registrant sells securities for its own account to a client, or buys securities for its own account from a client [*Rules s. 79*];

(f) Trading in the "exempt market", including:

procedures relating to trading in the "exempt market" (i.e., if securities are to be traded in reliance on an exemption from registration and prospectus requirements - see section 3.7 of this policy statement);

(g) Duties of compliance officers, branch managers and administration officers, including:

procedures for ensuring that the dealer, underwriter, or adviser, and individuals acting on its behalf, comply with the Act, Regulation and Rules [*Rules s. 65*]

policies relating to:

supervision of daily trading activities

periodic (monthly) review of client account activity

periodic review of the applicant's trading accounts and trading accounts of its partners, directors, officers and employees

review of employee applications for registration [*Form 4*], and

review and approval of advertising materials

procedures for addressing conflicts of interest [*Rules Part 5 Division 11*]

procedures for reviewing the adequacy of the applicant's bonding [*Rules* s. 21], and

procedures for periodic review of the applicant's policies and procedures.

4.7 Due Diligence Procedures for Underwriters

An underwriter must establish and apply written prudent business procedures or other safeguards for underwriting distributions of securities made by way of prospectus or other offering document specified by the Executive Director [*Rules* s. 45, *NIN#96/41*].

An applicant for registration as an underwriter should file with the Executive Director and, if the applicant is a member of the VSE or IDA - Pacific, with the VSE or IDA - Pacific, a written description of its procedures or other safeguards for underwriting distributions of securities by way of prospectus or other offering documents specified by the Executive Director [*NIN#96/41*]. The descriptions should cover procedures and other safeguards:

separating underwriting functions from trading functions, including the establishment of safeguards for dealing with confidential information

developing proficiency requirements, including corporate finance staff education and experience, commensurate with the requirements and responsibilities of underwriting

ensuring that appropriate due diligence reviews are undertaken by or on behalf of the underwriter prior to the execution by the underwriter of a certificate [*Act* s. 69], and

ensuring that the proceeds of a distribution are properly held, or disbursed, in accordance with the trust or other governing agreements between the underwriter and the issuer making the distribution

[*Rules* s. 45].

4.8 Documents to be Available for Inspection

A securities dealer, exchange contracts dealer, mutual fund dealer, real estate securities dealer, scholarship plan dealer, portfolio manager and investment counsel must maintain, for inspection by the Executive Director, the following documents, as applicable to its business:

new client account forms

trading agreements

margin agreements

client authorization forms or trading agreements for discretionary and managed accounts

leveraging statement [*NIN#87/67*]

information statements describing investment attributes of government strip bonds [*Appendix "A" to Interim LPS 3-43*]

disclosure statement for recognized market options [*BOR#92/3*]

hedge letter

advisory agreement

"Risk Disclosure Document (Exchange Contracts)" [*Rules s. 35, Form 64*], and

"Managed Accounts Disclosure Document (Exchange Contracts)" [*Rules s. 35, Form 65*].

4.9 Records to be Kept by Securities Advisers

A securities adviser must maintain, for inspection by the Executive Director, the following documents:

publications authored by the registrant that provide investment advice

research supporting advice given by the registrant, and

a record of securities and exchange contracts beneficially owned by the registrant, including records of purchases and sales during the current period of registration.

PART 5 COMPLIANCE OFFICERS, BRANCH MANAGERS AND ADMINISTRATION OFFICERS

5.1 Compliance Officer

- (a) If an applicant is seeking registration as a dealer or adviser, the compliance officer referred to in sections 2.1(l) and 2.3(k) of this policy statement must meet the proficiency requirements for, and subject to paragraph (b) must be registered as, respectively, a trading partner, director or officer, or advising partner, director or officer [*Rules s. 60(2)*]. The residency of trading partners, directors or officers and advising partners, directors or officers is discussed in section 2.4(d) of this policy statement. The compliance officer must submit proof of meeting the proficiency and qualification requirements required by the Executive Director.
- (b) If a dealer or adviser is related to a financial institution, the Executive Director will not require the dealer or adviser's compliance officer to be registered as a trading partner, director or officer or advising partner, director or officer [*Rules s. 17(1)*].
- (c) In addition to meeting the proficiency requirements for a trading partner, director or officer, a compliance officer of a securities dealer must successfully complete, within 18 months of approval as a compliance officer, the Effective Management in the Securities Industry Course (CSI).

- (d) If the applicant is seeking registration solely as an underwriter, the compliance officer must meet the proficiency requirements set out in section 14.5 of this policy statement [*Rules s. 60(1)*].
- (e) The Executive Director may consider an applicant for registration as a compliance officer to be unsuitable for registration if the applicant has not reached the age of majority [*Act s. 35(1)(a), Age of Majority Act, R.S.B.C. 1996, c. 7*].

5.2

Branch Manager or Administration Officer

- (a) Each branch office of a dealer or adviser in British Columbia must employ, with the Executive Director's approval, a branch manager to ensure that the branch and its employees comply with the Act, Regulation and Rules [*Rules s. 66(1)(a)*].
- (b) If a branch office of a registrant is located in a branch of a financial institution, the registrant may appoint, with the Executive Director's approval, an administration officer instead of a branch manager to ensure that the branch complies with the Act, Regulation and Rules [*Rules s. 66(1)(b), Principles of Regulation*].
- (c) The Executive Director will not require a branch of a registrant to employ a branch manager or an administration officer if the branch employs fewer than four registered individuals, and a branch manager or an administration officer in another branch of the registrant or financial institution will be, in the Executive Director's opinion, in a position to adequately supervise the branch [*Rules s. 66(2)*].
- (d) Prior to approval as branch manager or administration officer responsible for supervision of a branch office of a dealer or adviser, an individual must meet the proficiency requirements for a salesperson or advising employee in the applicable category of dealer or adviser, and:

subject to the following two bullets, a branch manager must have successfully completed the Branch Managers Qualifying Exam (CSI)

a branch manager of a securities dealer may substitute the Partners, Directors and Senior Officers Qualifying Exam (CSI) for the Branch Managers Qualifying Exam (CSI) and must, within 18 months of approval as a branch manager, complete the Effective Management in the Securities Industry Course (CSI)

a branch manager or administration officer of a mutual fund dealer may substitute the Branch Managers' Examination (IFIC) (including a version modified by elimination of the "options" section) or the Branch Managers' Course - Volume I (ICB) for the Branch Managers Qualifying Exam (CSI), and

a branch manager responsible for the supervision of a branch office of a dealer or adviser who proposes to trade in or advise on Commodity Pools, forward contracts or both must also meet

the proficiency requirements set out in Part 9 of this policy statement

[*Rules s. 60(1)*].

The branch manager or administration officer must submit proof that the applicant meets the proficiency and qualification requirements required by the Executive Director.

- (e) The Executive Director may consider an applicant for registration as a branch manager or administration officer to be unsuitable for registration if the applicant has not reached the age of majority [*Act s.35(1)(a), Age of Majority Act, R.S.B.C. 1996, c. 7*].

PART 6 BROKER

6.1 General Requirements

Refer also to the general requirements set out in Parts 3 - 5 of this policy statement.

6.2 Description of Broker

A registered broker is a corporation or partnership that is a member of the VSE and is authorized to trade in securities, exchange contracts or both, subject to the scope of its conditions of registration [*Rules s. 6(2)(a)*]. To be registered as a broker, the applicant must meet the registration requirements of the VSE including, but not limited to, proficiency and capital requirements, and be a member in good standing of the VSE.

6.3 Application to VSE

The Commission has authorized the VSE to register:

brokers

trading partners, directors and officers of brokers, and

salespersons of brokers (investment advisers)

[*Registration Transfer Rules*].

Applicants for these categories of registration should direct inquiries about, and applications for, registration to the VSE at the address set out in Appendix 2 to this policy statement.

The Commission has also authorized the VSE to register its member dealers as underwriters. Refer to Part 14 of this policy statement for particulars.

6.4 Categories of Registration used by VSE

If the Executive Director has not objected [*Act s. 27(1)(a)*], the VSE may use terms to describe categories of registration that vary from those set out in the Act or the Rules.

PART 7 INVESTMENT DEALER

7.1 General Requirements

Refer also to the general requirements set out in Parts 3 - 5 of this policy statement.

7.2 Description of Investment Dealer

A registered investment dealer is a corporation or partnership that is a member of the Investment Dealers Association of Canada and is authorized to trade in securities, exchange contracts or both, subject to the scope of its conditions of registration [*Rules s. 6(2)(b)*]. To be registered as an investment dealer, the applicant must meet registration requirements of the IDA - Pacific including, but not limited to, proficiency and capital requirements, and be a member in good standing of the IDA - Pacific.

7.3 Application to IDA - Pacific

The Commission has authorized the IDA - Pacific to register:

investment dealers

trading partners, directors or officers of investment dealers, and

salespersons of investment dealers (investment advisers)

[*Registration Transfer Rules*].

Applicants for these categories of registration should direct inquiries about, and applications for, registration to the IDA - Pacific at the address set out in Appendix 2 to this policy statement.

The Commission has also authorized the IDA - Pacific to register its member dealers as underwriters. Refer to Part 14 of this policy statement for particulars.

7.4 Categories of Registration used by IDA - Pacific

If the Executive Director has not objected [*Act s. 27(1)(a)*], the IDA - Pacific may use terms to describe categories of registration that vary from those set out in the Act or the Rules.

PART 8 SECURITIES DEALER

8.1 General Requirements

Refer also to the general requirements set out in Parts 3 - 5 of this policy statement.

8.2 Description of Securities Dealer

A registered securities dealer is a corporation or partnership, other than a broker or an investment dealer, that is authorized to trade in securities, other than forward contracts [*Rules s. 6(2)(c)*].

8.3 Positive Risk Adjusted Capital

To be registered as a securities 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), Form 9*].

8.4 Proficiency Requirements for Trading Partner, Director or Officer

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

the Canadian Securities Course (CSI)

the Conduct and Practices Handbook Exam (CSI)

the Professional Financial Planning Course (CSI)

the Partners, Directors & Senior Officers Qualifying Exam (CSI), and

if the applicant proposes to trade in commodity pool securities, the proficiency requirements set out in Part 9 of this policy statement

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 is a member of the VSE, IDA - Pacific or other self-regulatory body or exchange in Canada

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

An applicant who satisfies the Executive Director that the applicant is licensed by the Financial Planners Standards Council of Canada to use the designation "Certified Financial Planner" or "CFP" is considered to have met the proficiency requirement of completion of the Professional Financial Planning Course (CSI).

8.5 Proficiency Requirements for Salesperson

To be registered as a salesperson of a securities dealer, other than a salesperson restricted to trading in mutual fund securities, the applicant must have successfully completed:

the Canadian Securities Course (CSI)

the Conduct and Practices Handbook Exam (CSI)

a three-month in-house training program satisfactory to the Executive Director, during which time the salesperson has no client contact

if the applicant proposes to trade options, the Canadian Options Course (CSI), and

if the applicant proposes to trade in commodity pool securities, the proficiency requirements set out in Part 9 of this policy statement

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

As a condition of registration for a salesperson of a securities dealer, other than a salesperson restricted to trading in mutual fund securities, subsequent to registration, the individual must:

work under strict supervision, as described below, for the first six months, and

successfully complete the Professional Financial Planning Course (CSI) within 30 months

[*Act s. 36, Rules s. 61(1)*].

While a salesperson works under strict supervision, the compliance officer, branch manager or other individual approved by the Executive Director must supervise the registrable activities of the salesperson. The supervision must include:

approval prior to execution of all orders received by the salesperson to purchase, sell or transfer securities on behalf of clients

review of all client accounts of the salesperson for evidence of unsuitable investments, excessive trading (churning), improper use of discretion and failure to provide clients with required disclosures (e.g., failure to provide clients with a prospectus or with a disclosure document relating to leveraging to buy mutual fund securities)

daily review of all trading activity in the client and personal accounts of the salesperson for unusual activity, and

review of complaints, if any, received from clients of the salesperson.

To be registered as a salesperson of a securities dealer, restricted to trading in mutual fund securities, the applicant must have successfully completed the proficiency requirements set out in section 10.5 of this policy statement.

An applicant who satisfies the Executive Director that the person is licensed by the Financial Planners Standards Council of Canada to use the designation "Certified Financial Planner" or "CFP" is considered to have met the proficiency requirement of completion of the Professional Financial Planning Course (CSI).

Refer to Part 5 of this policy statement for proficiency requirements for compliance officers, branch managers and administration officers.

PART 9 LIMITED DEALER - EXCHANGE CONTRACTS DEALER

9.1 General Requirements

Refer also to the general requirements set out in Parts 3 - 5 of this policy statement.

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)(i)*]. The Executive Director, by blanket order, will permit a registered exchange contracts dealer, and individuals registered to trade on its behalf, to trade in Commodity Pool securities without additional registration requirements. [*BOR#98/3*]

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 contracts traded on a recognized exchange. Additional regulatory requirements for trading in foreign exchange contracts are discussed in the next section.

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.

- (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 Form 9, 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 [*NIN#95/7*].

- (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
 - 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), Form 9*].

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.

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" may calculate risk adjusted capital on the basis of a minimum capital requirement of \$75,000 [*Rules s. 19(4)*].

If the dealer wishes to trade in foreign exchange contracts, the maintenance of minimum capital, as contained in the Joint Financial Questionnaire and Report [*Form 9*], 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.

9.5 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 National Commodity Futures Examination (CSI) or Part I of the Canadian Futures Exam Program (CSI)

Part II of the Canadian Futures Exam Program (CSI)

the Canadian Commodity Supervisors Exam (CSI), and

if the applicant proposes to trade options, the Canadian Options Course (CSI)

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), Proposed NI 81-104 and Companion Policy].

9.6 Proficiency Requirements for Salesperson

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

the National Commodity Futures Examination (CSI) or Part 1 of the Canadian Futures Exam Program (CSI)

Part II of the Canadian Futures Exam Program (CSI), and

if the applicant proposes to trade options, the Canadian Options Course (CSI)

[Rules s. 61(1), Proposed NI 81-104 and Companion Policy].

9.7 Proficiency Requirements for Compliance Officer

Refer to Part 5 of this policy statement for proficiency requirements of compliance officers, branch managers and administration officers.

PART 10 LIMITED DEALER - MUTUAL FUND DEALER

10.1 General Requirements

Refer also to the general requirements set out in Parts 3 - 5 of this policy statement.

10.2 Description of Limited Dealer - Mutual Fund Dealer

A registered mutual fund dealer is a corporation or partnership that is authorized to trade exclusively in securities of mutual funds *[Rules s. 6(2)(d)(iii)]*.

Mutual fund dealers relying on an exemption from registration requirements with respect to trading in the "exempt market" shall not provide advice in relation to such trades without separate registration as an adviser *[Act ss. 45 and 46, Rules s. 89]*. The "know your client" and suitability rules apply to each purchase or sale in the exempt market *[Rules s. 48]* and such transactions must be supervised by a compliance officer or branch manager *[Rules s. 47]*. Mutual fund dealers carrying on business in the "exempt market" should consider amending their

category of registration to broker, investment dealer or securities dealer in order to rely upon certain limited advising registration exemptions [*Act s. 44*].

10.3 Working Capital

Subject to the paragraph that follows, to be registered as a mutual fund dealer, the applicant must maintain working capital, calculated in accordance with the Report of Working Capital, of at least \$75,000 plus the maximum amount deductible under the applicant's financial institution bond [*Rules s. 19(3)*].

A mutual fund dealer that does not hold client funds or securities and is recognized by the Executive Director must maintain working capital, calculated in accordance with the Report of Working Capital, of at least \$25,000 plus the maximum amount deductible under the applicant's financial institution bond [*Rules s. 19(5)*].

10.4 Proficiency Requirements for Trading Partner, Director or Officer

To be registered as a trading partner, director or officer of a mutual fund dealer, including a dealer that is controlled by or associated with a financial institution, the applicant must have successfully completed the following requirements:

the Canadian Investment Funds Course (IFIC), or the Investment Funds in Canada Course (ICB) or the Canadian Securities Course (CSI)

the Partners, Directors & Senior Officers Qualifying Exam (CSI) or the Officers', Partners' or Directors' Examination (IFIC), and

if the applicant proposes to trade in commodity pool securities, the proficiency requirements set out in Part 9 of this policy statement

and have at least five continuous years of relevant experience in the mutual fund industry, one year of which must have been as a manager [*Rules s. 61(1)*].

10.5 Proficiency Requirements for Salesperson

To be registered as a salesperson of a mutual fund dealer, including a dealer that is controlled by or associated with a financial institution, the applicant must have successfully completed the following requirements:

- (a) to trade in mutual fund securities, other than Commodity Pools, if the applicant is employed full time by the dealer or if the applicant is employed other than full time and the Executive Director restricts the type or number of funds that the applicant may trade,

the Canadian Securities Course (CSI)

the Canadian Investment Funds Course (IFIC), or

the Investment Funds in Canada Course (ICB)

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

- (b) to trade in mutual fund securities, other than Commodity Pools, if the applicant is employed other than full time by the dealer and the Executive Director does not restrict the type or number of funds that the applicant may trade,

the Canadian Securities Course (CSI)

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

- (c) to trade in Commodity Pools,

the proficiency requirements set out in Part 9 of this policy statement

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

10.6 Proficiency Requirements for Compliance Officer

Refer to Part 5 of this policy statement for proficiency requirements of compliance officers, branch managers and administration officers.

PART 11 LIMITED DEALER - SECURITY ISSUER

11.1 General Requirements

Refer also to the general requirements set out in Parts 3 - 5 of this policy statement.

11.2 Description of Limited Dealer - Security Issuer

A registered security issuer is an issuer that is authorized to trade in securities for purposes of distributing securities of its own issue, exclusively for its own account [*Rules s. 6(2)(d)(iii)*].

11.3 Proficiency Requirements for Trading Partner, Director or Officer

To be registered as a trading partner, director or officer of a security issuer, the applicant must have successfully completed:

the Canadian Securities Course (CSI), and

the Conduct and Practices Handbook Exam (CSI)

and demonstrate sufficient relevant experience in securities matters to the Executive Director [*Rules s. 61(1)*].

11.4 Proficiency Requirements for Salesperson

To be registered as a salesperson of a security issuer, the applicant must have successfully completed:

the Canadian Securities Course (CSI), and

the Conduct and Practices Handbook Exam (CSI)

[Rules s. 61(1)].

11.5 Proficiency Requirements for Compliance Officer

Refer to Part 5 of this policy statement for proficiency requirements of compliance officers, branch managers and administration officers.

PART 12 LIMITED DEALER - REAL ESTATE SECURITIES DEALER

12.1 General Requirements

Refer also to the general requirements set out in Parts 3 - 5 of this policy statement.

12.2 Description of Limited Dealer - Real Estate Securities Dealer

A registered real estate securities dealer is a corporation or partnership that is authorized to trade exclusively in real estate securities [Rules s. 6(2)(d)(iv)].

12.3 Working Capital

To be registered as a real estate securities dealer, the applicant must maintain working capital, calculated in accordance with the Report of Working Capital, of at least \$75,000 plus the maximum amount that is deductible under the dealer's financial institution bond [Rules s. 19(3)].

12.4 Proficiency Requirements for Trading Partner, Director or Officer

To be registered as a trading partner, director or officer of a real estate securities dealer, the applicant must have successfully completed:

the Canadian Securities Course (CSI) or the Real Estate Pre-Licensing Course (UBC), and

the Partners, Directors & Senior Officers Qualifying Exam (CSI)

and have at least

five continuous years of relevant experience in the securities industry, or

five continuous years relevant experience in the real estate industry, two years of which must have been as a real estate nominee as defined in the *Real Estate Act*, R.S.B.C. 1996, c. 397

[Rules s. 61(1)].

12.5 Proficiency Requirements for Salesperson

To be registered as a salesperson of a real estate securities dealer, the applicant must have successfully completed the Canadian Securities Course (CSI) or the Real Estate Pre-Licensing Course (UBC) [Rules s. 61(1)].

12.6 Proficiency Requirements for Compliance Officer

Refer to Part 5 of this policy statement for proficiency requirements of compliance officers, branch managers and administration officers.

PART 13 LIMITED DEALER - SCHOLARSHIP PLAN DEALER

13.1 General Requirements

Refer also to the general requirements set out in Parts 3 - 5 of this policy statement.

13.2 Description of Limited Dealer - Scholarship Plan Dealer

A registered scholarship plan dealer is a corporation or partnership that is authorized to trade exclusively in securities of a scholarship or educational plan or trust [*Rules s. 6(2)(d)(v)*].

13.3 Working Capital

To be registered as a scholarship plan dealer, the applicant must maintain working capital, calculated in accordance with the Report of Working Capital, of at least \$75,000 plus the maximum amount deductible under the applicant's financial institution bond [*Rules s. 19(3)*].

13.4 Proficiency Requirements for Trading Partner, Director or Officer

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

the dealer's in-house course and examination, both of which must have been previously approved by the Executive Director, and

the Officers', Partners' or Directors' Examination (IFIC)

and have at least

four continuous years of relevant experience in the scholarship plan industry, or

three continuous years of relevant experience in the scholarship plan industry, one year of which must have been as a manager

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

13.5 Proficiency Requirements for Salesperson

To be registered as a salesperson of a scholarship plan dealer, the applicant must have successfully completed the dealer's in-house course and examination, both of which must have been previously approved by the Executive Director [*Rules s. 61(1)*].

13.6 Proficiency Requirements for Compliance Officer

Refer to Part 5 of this policy statement for proficiency requirements of compliance officers, branch managers and administration officers.

PART 14 UNDERWRITER

14.1 General Requirements

Refer also to the general requirements set out in Parts 3 - 5 of this policy statement.

14.2 Description of Underwriter

An underwriter includes a corporation or partnership that:

as principal, agrees to purchase a security for the purpose of distribution

as agent, offers for sale or sells a security in connection with a distribution, or

participates directly or indirectly in a distribution described above

but does not include:

a person whose interest in the transaction is limited to receiving the usual and customary distribution or sales commission payable by an underwriter or issuer

a mutual fund that accepts its securities for surrender and resells them

a corporation that purchases shares of its own issue and resells them, or

a bank with respect to securities described in section 46 of the Act and to prescribed banking transactions

[Act s. 1(1)].

The first two branches of the definition of "underwriter" contained in the Act capture persons that agree to purchase for resale or to offer for sale securities for the purposes of, or in connection with, a distribution of securities. Distributions include both prospectus offerings and offerings in the "exempt market". The third branch captures persons that participate in a distribution involving an underwriter under either of the first two branches. Participating in the distribution involves something more than a mere interest in the distribution, that is, there must be some involvement in the distribution. If the activities of a person fall within one of the three branches of the definition, registration as an underwriter is required unless the person meets the requirements of one of the four exceptions that are set out in the definition itself or can rely upon an applicable exemption [Rules s. 87, NIN#96/41].

A person will not be registered as an underwriter unless the person is a member of the Investment Dealers Association of Canada, the VSE, the Alberta Stock Exchange, The Toronto Stock Exchange or the Montréal Exchange [Rules s. 7, LPS 3-44].

14.3 Application to VSE, IDA - Pacific or Commission

The Commission has authorized the VSE and IDA - Pacific to register their member dealers as underwriters [*Registration Transfer Rules*]. Other applicants for registration as an underwriter should apply to the Commission. Accordingly, inquiries about, and applications for, registration as an underwriter should be directed to:

the VSE or IDA - Pacific, at the applicable address set out in Appendix 2 to this policy statement, if the applicant is also registered, or is also seeking registration, as a broker or investment dealer, or

the Commission, if the applicant is seeking registration in British Columbia solely as an underwriter.

14.4 Positive Risk Adjusted Capital

To be registered as an underwriter, the applicant must maintain positive risk adjusted capital as required by the Joint Regulatory Financial Questionnaire and Report [*Rules s. 19(2), Form 9*].

14.5 Proficiency Requirements for Compliance Officer

The compliance officer of an underwriter must have successfully completed:

the Canadian Securities Course (CSI)

the Professional Financial Planning Course (CFP), except for those persons who have satisfied the Executive Director that they are licensed by the Financial Planners Standards Council of Canada to use the designation "Certified Financial Planner" or "CFP", and

the Partners, Directors & Senior Officers Qualifying Exam (CSO)

and have at least

seven continuous years of relevant experience in the securities industry, two years of which must have been with an underwriter that is a member of the VSE, IDA - Pacific or other self-regulatory body or exchange in Canada, or

five continuous years of relevant experience with an underwriter that is a member of the VSE, IDA - Pacific or other self-regulatory body or exchange in Canada

[*Rules s. 60(1)*].

PART 15 PORTFOLIO MANAGER

15.1 General Requirements

Refer also to the general requirements set out in Parts 3 - 5 of this policy statement.

15.2 Description of Portfolio Manager

A registered portfolio manager is a corporation, partnership or sole proprietorship that is authorized to manage, or to hold itself out as managing, the investment portfolio consisting of securities, exchange contracts or both, of one or more clients through discretionary authority granted by the clients [*Rules s. 8(a), NIN#95/7*].

15.3 Exemption for Broker or Investment Dealer Acting as Portfolio Manager

A broker or investment dealer, and the partners, directors, officers or salespersons of the broker or investment dealer, may be exempt from registration as an adviser with relation to certain "managed accounts" or "discretionary accounts" [*Rules s. 86*]. Inquiries about the application of this exemption should be directed to the VSE or IDA - Pacific, as applicable.

15.4 Working Capital

To be registered as a portfolio manager, the applicant must maintain working capital, calculated in accordance with the Report of Working Capital, of at least \$25,000 plus the maximum amount deductible under the applicant's financial institution bond [*Rules s. 20(1), Form 62*].

15.5 Proficiency Requirements for Advising Partner, Director or Officer and Advising Employee

Subject to section 15.6 of this policy statement, to be registered as an advising partner, director or officer or an advising employee of a portfolio manager, the applicant must have successfully completed:

- (a) to manage investment portfolios containing securities, other than forward contracts or Commodity Pools,

the Canadian Securities Course (CSI)

the Canadian Investment Management Course (CSI), and

the first year of the Chartered Financial Analysts Course (AIMR)

and have at least five continuous years of relevant experience in the securities industry performing research involving the financial analysis of investments in securities, three years of which must have been under the supervision of an adviser responsible for the management or supervision of investment portfolios having an aggregate value of at least \$1,000,000 [*Rules s. 61(1)*]; and

- (b) to manage investment portfolios containing exchange contracts, forward contracts or Commodity Pools,

the Canadian Investment Management Course (CSI), and

the Canadian Futures Exam Program (CSI) or the Chartered Financial Analysts Course (AIMR)

and have at least five continuous years of relevant experience in the securities industry performing research involving the financial analysis of investments in exchange contracts or forward contracts, three years of which must have been under the supervision of an adviser responsible for the management or supervision of investment portfolios having an aggregate value of at least \$1,000,000 [*Rules s. 61(1)*].

15.6 Proficiency Requirements for Advising a Mutual Fund about Permitted Derivatives

If the applicant will be advising a mutual fund about derivatives in which mutual funds are permitted to invest, the applicant must meet the proficiency requirements set out in section 15.5(b) of this policy statement [*NP 39 ss. 2.07(5)(a) and (b)*].

15.7 Proficiency Requirements for Compliance Officer

Refer to Part 5 of this policy statement for proficiency requirements of compliance officers, branch managers and administration officers.

15.8 Other Restrictions on Managing Portfolios

The detailed proficiency requirements set out in the preceding sections may not apply directly to a particular situation. The Executive Director will assess each application and may limit the types of securities, exchange contracts or both that the registrant may hold in the portfolios that the registrant is managing [*Act s. 36(1), Rules s. 17(1)*]. Accordingly, a person seeking registration as a portfolio manager that does not meet the proficiency requirements set out in the preceding sections should, before applying, discuss the details of the proposal with the Director, Registration.

15.9 Conditions of Registration - Foreign Adviser

(a) An applicant for registration as a portfolio manager that is a foreign adviser must file:

a "Uniform Application for Registration/Approval (B.C.)" [*Form 4*] for every director, officer or employee who will be advising in British Columbia

a copy of the application for registration in the foreign adviser's own jurisdiction

evidence of the foreign adviser's registration in its own jurisdiction

a copy of the foreign adviser's organizational chart

a copy of course results from the applicant's own jurisdiction and if there are no such results, a resume of educational experience

a copy of registration as an extraprovincial company with the Registrar of Companies, and

a submission to jurisdiction and appointment of agent for service of process.

- (b) The foreign adviser shall provide to each person in British Columbia for whom it acts as an adviser, prior to advising, a statement in writing disclosing the name and address of the agent for service of process in British Columbia named in the submission to jurisdiction and appointment of agent for service of process or stating that this information is available from the Commission.
- (c) The foreign adviser must not change its agent for service of process in British Columbia without giving the Commission 30 days prior notice of such change by filing a new submission to jurisdiction and appointment of agent for service of process.
- (d) The foreign adviser will immediately inform the Executive Director upon:
 - the foreign adviser becoming aware that it is the subject of an investigation or disciplinary action by any financial services or securities regulatory authority or self-regulatory authority, or
 - the foreign adviser ceasing to meet the minimum working capital requirement [*Rules* s. 20] and bonding requirement [*Rules* s. 21].
- (e) The foreign adviser is subject to all of the requirements of section 42 of the Act.
- (f) The foreign adviser shall annually, not more than 90 days after the end of its fiscal year, file audited financial statements with the Executive Director [*Rules* s. 69(1)(a)].
- (g) The foreign adviser may act in British Columbia only for the following clients:
 - a bank to which the *Bank Act*, S.C. 1991, c. 46, applies, if the bank acts as principal or as agent for accounts fully managed by it
 - a loan corporation or trust company registered to operate in British Columbia, if the loan corporation or trust company acts as principal or as trustee or agent for accounts fully managed by it
 - an insurance company licensed under the *Insurance Act*, R.S.B.C. 1996, c. 226
 - Credit Union Central of Canada
 - the Business Development Bank of Canada
 - the Government of Canada or any province or territory of Canada
 - a registered adviser, if the registered adviser acts as principal or as agent for accounts fully managed by the registered adviser

a registered broker or investment dealer, if the registered broker or investment dealer acts as principal or agent for accounts fully managed by the registered broker or investment dealer

a trustee pension fund sponsored by an employer for the benefit of its employees or employees of its affiliates that has assets of at least \$100 million as of the date of its most recent audited balance sheet

a registered charity under the *Income Tax Act*, R.S.C. 1985, c.1, that has assets not used directly in charitable activities or administration of at least \$5 million as of the date of its most recent audited balance sheet

an individual who has a net worth of at least \$5 million, as certified by the individual, excluding the value of the individual's principal residence

a person, other than an individual, in respect of which all of the owners of interests, direct or indirect, legal or beneficial are individuals referred to in the preceding bullet, except for persons or companies holding interests in a corporate trustee that is a trust company registered in British Columbia

a corporation that has shareholders' equity of at least \$100 million as of the date of its most recent annual financial statements

a mutual fund or non-redeemable investment fund that distributes its securities in British Columbia, provided that:

the person or company having the power and responsibility to direct the affairs of the fund is resident in Canada, is registered as an adviser, broker, investment dealer or mutual fund dealer, and is not an affiliate of the foreign adviser, and

the person or company referred to in the preceding bullet is a party to the contract under which the foreign adviser provides advice to the fund,

and

a mutual fund or non-redeemable investment fund that distributes its securities in British Columbia under a prospectus exemption and is sold in amounts no less than \$500,000.

PART 16 INVESTMENT COUNSEL

16.1 General Requirements

Refer also to the general requirements set out in Parts 3 - 5 of this policy statement.

16.2 Description of Investment Counsel

A registered investment counsel is a corporation, partnership or sole proprietorship that is authorized to engage, or hold itself out as engaging, in the business of advising others about investing in or buying or selling specific securities, exchange contracts or both, or that is primarily engaged in giving continuous advice on the investment of funds, on the basis of the particular objectives of each client [*Rules s. 8(b), NIN#95/7*].

16.3 Working Capital

Subject to the paragraph that follows, to be registered as an investment counsel the applicant must maintain working capital, calculated in accordance with the Report of Working Capital, of at least \$25,000 plus the maximum amount deductible under the applicant's financial institution bond [*Rules s. 20(1), Form 62*].

An investment counsel that does not hold client funds or securities and is recognized by the Executive Director must maintain working capital, calculated in accordance with the Report of Working Capital, of at least \$5,000 plus the maximum amount deductible under the applicant's financial institution bond [*Rules s. 20(2), Form 62*].

16.4 Proficiency Requirements for Advising Partner, Director or Officer and Advising Employee

To be registered as an advising partner, director or officer or an advising employee of an investment counsel, the applicant must have successfully completed:

- (a) to advise about securities, other than forward contracts or Commodity Pools,

- the Canadian Securities Course (CSI)

- the Canadian Investment Management Course (CSI), and

- the first year of the Chartered Financial Analysts Course (AIMR)

- and have at least five continuous years of relevant experience in the securities industry performing research involving the financial analysis of investments in securities, three years of which must have been under the supervision of an adviser responsible for the management or supervision of investment portfolios having an aggregate value of at least \$1,000,000 [*Rules s. 61(1)*]; and

- (b) to advise about exchange contracts, forward contracts, or Commodity Pools,

- the Canadian Investment Management Course (CSI), and

- the Canadian Futures Exam Program (CSI) or the Chartered Financial Analysts Course (AIMR)

and have at least five continuous years of relevant experience in the securities industry performing research involving the financial analysis of investments in exchange contracts or forward contracts, three years of which must have been under the supervision of an adviser responsible for the management or supervision of investment portfolios having an aggregate value of at least \$1,000,000 [*Rules s. 61(1)*].

16.5 Proficiency Requirements for Compliance Officer

Refer to Part 5 of this policy statement for proficiency requirements of compliance officers, branch managers and administration officers.

16.6 Other Restrictions on Investment Counseling

The detailed proficiency requirements set out in the preceding section may not apply directly to a particular situation. The Executive Director will assess each application on a case-by-case basis and may limit the types of securities, exchange contracts or both about which the registrant may counsel [*Act s. 36(1), Rules s. 17*]. Accordingly, a person seeking registration as an investment counsel that does not meet the proficiency requirements set out in the preceding sections should, before applying, discuss the details of the proposal with the Director, Registration.

16.7 Conditions of Registration - Foreign Advisor

An applicant for registration as an investment counsel that is a Foreign Advisor must comply with the conditions of registration for a Foreign Advisor set out in section 15.9 of this policy statement.

PART 17 SECURITIES ADVISER

17.1 General Requirements

Refer also to the general requirements set out in Parts 3 - 5 of this policy statement.

17.2 Description of Securities Adviser

A registered securities adviser is a corporation, partnership or sole proprietorship that is authorized to engage, or hold itself out as engaging, in the business of advising others through direct advice or through publications about investing in, or buying or selling, specific securities, exchange contracts or both, not purporting to tailor that advice or publication to the needs of specific clients [*Rules s. 8(c)*].

17.3 Proficiency Requirements for Advising Partner, Director or Officer and Advising Employee

To be registered as an advising partner, director or officer or an advising employee of a securities adviser, the applicant must have successfully completed:

- (a) subject to paragraph (c), to advise about securities, other than forward contracts or Commodity Pools,
- the Canadian Securities Course (CSI), and
- the Canadian Investment Management Course (CSI)
- and have at least five continuous years of relevant experience in the securities industry performing research involving the financial analysis of investments in securities under the supervision of an adviser [*Rules s. 61(1)*];
- (b) to advise about exchange contracts, forward contracts or Commodity Pools,
- the Canadian Futures Exam Program (CSI), and
- the Canadian Investment Management Course (CSI)
- and have at least five continuous years of relevant experience in the securities industry performing research involving the financial analysis of investments in exchange contracts or forward contracts under the supervision of an adviser [*Rules s. 61(1)*]; and
- (c) to advise about securities of a mutual fund other than Commodity Pools,
- the Canadian Investment Funds Course (IFIC) or the Canadian Securities Course (CSI)
- the Canadian Investment Management Course (CSI), and
- the Investment Funds in Canada Course (ICB)
- and have at least five continuous years of relevant experience in the securities industry performing research involving the financial analysis of investments in securities of mutual funds under the supervision of an adviser [*Rules s. 61(1)*].

17.4 Proficiency Requirements for Compliance Officer

Refer to Part 5 of this policy statement for proficiency requirements of compliance officers, branch managers and administration officers.

17.5 Other Restrictions on Advising

The detailed proficiency requirements set out in the preceding section may not apply directly to a particular situation. The Executive Director will assess each application on a case-by-case basis and may limit the types of securities or exchange contracts or both about which the registrant may advise [*Act s. 36(1), Rules s. 17*]. Accordingly, a person seeking registration as a securities adviser that does not meet the proficiency requirements set out in the preceding sections should, before applying, discuss the details of the proposal with the Director, Registration.

DATED at Vancouver, British Columbia, on March 24, 1998.

Michael J. Watson
Acting Executive Director

APPENDIX 1 - DEFINITIONS

In this policy statement:

"Act" means the *Securities Act*, R.S.B.C. 1996, c. 418, or any successor legislation;

"Branch Managers' Course - Volume 1 (ICB)" means an examination prepared by the Institute of Canadian Bankers;

"Branch Managers' Examination (IFIC)" means an examination prepared by the Investment Funds Institute of Canada;

"Branch Managers Qualifying Exam (CSI)" means a two-part examination prepared by the Canadian Securities Institute;

"Canadian Commodity Supervisors Exam (CSI)" means an examination prepared by the Canadian Securities Institute;

"Canadian Futures Exam Program (CSI)" means a two-part examination prepared by the Canadian Securities Institute;¹

¹ The Canadian Securities Institute has developed new courses to replace the current Canadian Options Course (CSI) and the Canadian Futures Exam Program (CSI). There will be one basics course called the Derivatives Fundamentals Course (CSI), and separate licensing examinations for options and futures. To receive either license, the applicant will require both the Derivatives Fundamentals Course (CSI) and the relevant licensing course. Enrollment in the Canadian Options Course (CSI) and the Canadian Futures Exam Program (CSI) will be permitted until May 15, 1998.

"Canadian Investment Funds Course (IFIC)" means an examination prepared by the Investment Funds Institute of Canada;

"Canadian Investment Management Course (CSI)" means a two-part study program, including examinations, prepared by the Canadian Securities Institute;

"Canadian Investment Management Course, Part II (CSI)" means the second part of the Canadian Investment Management Course (CSI);

"Canadian Investor Protection Fund" means the fund, referred to in section 23(1)(a) of the Rules, set up by the members of the Investment Dealers Association of Canada and the Vancouver Stock Exchange, the Alberta Stock Exchange, The Toronto Stock Exchange and the Montréal Exchange;

"Canadian Options Course (CSI)" means an examination prepared by the Canadian Securities Institute;²

2 The Canadian Securities Institute has developed new courses to replace the current Canadian Options Course (CSI) and the Canadian Futures Exam Program (CSI). There will be one basics course called the Derivatives Fundamentals Course (CSI), and separate licensing examinations for options and futures. To receive either license, the applicant will require both the Derivatives Fundamentals Course (CSI) and the relevant licensing course. Enrollment in the Canadian Options Course (CSI) and the Canadian Futures Exam Program (CSI) will be permitted until May 15, 1998.

"Canadian Securities Course (CSI)" means an examination prepared by the Canadian Securities Institute;

"Chartered Financial Analysts Course (AIMR)" means an examination prepared by the Association for Investment Management and Research;

"Commission" means the British Columbia Securities Commission;

"Commodity Pool" has the meaning set out in proposed National Instrument 81-104 - "Commodity Pools", or any successor instrument;

"Conduct and Practices Handbook Exam (CSI)" means an examination prepared by the Canadian Securities Institute;

"Contingency Trust Fund" means the compensation fund or contingency trust fund referred to in section 23(1)(b) of the Rules;

"Derivatives Fundamentals Course (CSI)" means an examination prepared by the Canadian Securities Institute;

"Effective Management in the Securities Industry Course (CSI)" means a seminar course prepared by the Canadian Securities Institute;

"Executive Director" means the chief administrative officer of the Commission appointed under section 8 of the Act;

"foreign adviser" means an adviser that does not maintain an office in Canada or have partners, directors, officers or advising employees residing in Canada;

"IDA - Pacific" means the Pacific District of the Investment Dealers Association of Canada;

"Interim LPS 3-43" means Interim Local Policy Statement 3-43 "Government Strip Bonds", or any successor instrument;

"Investment Funds in Canada Course (ICB)" means an examination prepared by the Institute of Canadian Bankers;

"Joint Regulatory Financial Questionnaire and Report" means the questionnaire and report in Form 9, as amended from time to time, required by the Canadian Investor Protection Fund and sponsoring self-regulatory organisations of the Canadian Investor Protection Fund;

"Junior Issuer Underwriter" has the meaning set out in LPS 3-17;

"LPS 3-16" means Local Policy Statement 3-16 "Registration for Securities and Insurance", or any successor instrument;

"LPS 3-17" means Local Policy Statement 3-17 "Registrant Due Diligence", or any successor instrument;

"LPS 3-44" means Local Policy Statement 3-44 "Regulation of Self Regulatory Body, Exchanges and Jurisdictions", or any successor instrument;

"National Commodity Futures Examination (CSI)" means an examination administered by the Canadian Securities Institute on behalf of the National Association of Securities Dealers, Washington, D.C., U.S.A.;

"NI 32-101" means National Instrument 32-101 "Small Securityholder Selling and Purchase Arrangements", or any successor instrument;

"NP 39" means National Policy Statement No. 39 "Mutual Funds", or any successor instrument;

"NP 41" means National Policy Statement No. 41 "Shareholder Communication", or any successor instrument;

"Officers', Partners' or Directors' Examination (IFIC)" means an examination prepared by the Investment Funds Institute of Canada;

"Partners, Directors & Senior Officers Qualifying Exam (CSI)" means an examination prepared by the Canadian Securities Institute;

"Principles of Regulation" means the guidelines drafted by the Canadian Securities Administrators and adopted by the Commission by NIN#88/40, NIN#88/48 (as modified by NIN#90/7) and NIN#90/16, or any successor instrument;

"Professional Financial Planning Course (CSI)" means the first part of the Canadian Investment Management Course (CSI);

"Proposed NI 81-104 and Companion Policy" means proposed National Instrument 81 - 104 and Companion Policy 81-104CP "Commodity Pools", or any successor instrument;

"Real Estate Pre-Licensing Course (UBC)" means a course prepared by the Real Estate Division, Faculty of Commerce and Business Administration, University of British Columbia in co-operation with the Real Estate Council of British Columbia, and includes the Real Estate Securities Course;

"Registration Transfer Rules" means the *Registration Transfer Rules*, R.B.C. Reg. 193/97, or any successor legislation;

"Regulation" means the *Securities Regulation*, R.B.C. Reg. 196/97, or any successor legislation;

"Report of Risk Adjusted Capital" (also known as "Monthly Financial Report" or "Quarterly Financial Report") means a report of risk adjusted capital, in Form 9A, referred to in section 70(2) of the Rules;

"Report of Working Capital" means the report of working capital in Form 60, referred to in sections 19(3) and (5), 20(1) and (2), 41(1)(c) and 70(3) of the Rules;

"Rules" means the *Securities Rules*, R.B.C. Reg. 194/97, or any successor legislation;

"Statement of Financial Condition (Audited)" means the statement of financial condition, in Form 63, referred to in sections 50(1)(g)(i) and 70(4) of the Rules;

"submission to jurisdiction and appointment of agent for service of process" means an agreement, in a form acceptable to the Executive Director, in which a registrant or another person:

- (a) irrevocably and unconditionally agrees to submit to the non-exclusive jurisdiction of the judicial, quasi-judicial and administrative tribunals of British Columbia and any administrative proceedings in British Columbia, in any proceedings arising out of or related to or concerning its registration under the Act or its activities in British Columbia as a registrant, and
- (b) designates and appoints an agent in British Columbia upon whom may be served any notice, pleading, subpoena, summons or other process in any action, investigation or administrative, criminal, quasi-criminal or other proceeding arising out of or relating to or concerning its registration under the Act or its activities in British Columbia as a registrant, and irrevocably waives any right to raise as a defence in any such proceeding any alleged lack of jurisdiction to bring such proceeding;

"unconditional subordination agreement" means an agreement, in Form 60, in which a lender agrees to subordinate all of the lender's rights against a registrant borrower, on account of the registrant's debt to the lender, to all of the claims of the general creditors so that any claims against the registrant will be paid out of the assets of the registrant before any payment is made to the lender; and

"VSE" means the Vancouver Stock Exchange.

APPENDIX 2 - INFORMATION SOURCES

A bound, annotated compilation of the Act, Regulation, Rules, forms and other material is available from:

Carswell
#710 - 815 West Hastings Street
Vancouver, B.C.
V6C 1B4
Tel: (604) 685-8171
Fax: (604) 685-5343

To purchase copies of the Act, Regulation and Rules, contact:

Crown Publications
521 Fort Street
Victoria, B.C. V8W 1E7
Tel: (250) 386-4636
Fax: (250) 386-0221

Queen's Printer
849 Hornby Street
Vancouver, B.C. V6Z 1T9
Tel: (604) 660-0981
Fax: (604) 660-1170

Worldwide Books and Maps
736A Granville Street
Vancouver, B.C. V6Z 1G3
Tel: (604) 687-3320
Fax: (604) 687-5925

Forms 3, 4, 4Z, 7 and 7A are available for pick up or by mail from the Commission's 2nd floor receptionist at 865 Hornby Street, Vancouver, B.C. V6Z 2H4, phone: (604) 899-6600. Upon request, the Supervisor, Registration, will mail or arrange for you to pick up the Joint Regulatory Financial Questionnaire and Report [*Form 9*]. There is no charge for these forms (phone: (604) 899-6660); however, only a reasonable number of copies will be distributed. Persons phoning from within British Columbia can call toll-free (1-800-373-6393).

A "boilerplate" unconditional subordination agreement [*Form 60*] and "direction to auditor" are also available from the Supervisor, Registration, as well an outline for the content of a "managed accounts disclosure document", at no charge. In addition, the Supervisor, Registration, can provide a set of "standard" conditions of registration for foreign advisers.

Forms (mock-up format only) may be purchased from:

Superior Repro
#200 - 1112 West Pender Street
Vancouver, B.C. V6E 2S1
Tel: (604) 683-2181
Fax: (604) 683-2189
e-mail: sales@superiorprint.com
internet: www.superiorprint.com

A complete set of the Act, Regulation, and Rules forms and other materials are available on a subscription basis from:

The Continuing Legal Education Society of British Columbia
#300 - 845 Cambie Street
Vancouver, B.C. V6B 5T2
Tel: (604) 669-3544 (toll-free: 1-800-663-0437)
Fax: (604) 669-9260
e-mail: custserv@cle.bc.ca
internet: www.cle.bc.ca

CCH Canadian Limited
Suite 1760 - One Bentall Centre
505 Burrard Street
Vancouver, B.C. V7X 1M6
Tel: (604) 688-7522
Fax: (604) 688-0451
(Canadian Securities Law Reporter)
internet: www.ca.cch.com

For information on courses and examinations referred to in this policy statement, contact:

The Canadian Securities Institute
1350 - 650 W. Georgia St.
P.O. Box 11574
Vancouver, B.C. V6B 4N8

Tel: (604) 683-1338
Fax: (604) 683-6050
internet: www.csi.ca

The Investment Funds Institute of Canada
151 Yonge Street, 5th Floor
Toronto, Ontario M5C 2W7
Tel: (416) 363-2158
Fax: (416) 861-9937
e-mail: ific@mutfunds.com
internet: mutfunds.com/ific

The Institute of Canadian Bankers
Scotia Tower, Suite 1000
1002 Sherbrooke Street West
Montréal, Québec H3A 3M5
Tel: (514) 282-9480
Fax: (514) 282-8881
e-mail: webmaster@icb.org
internet: icb.org

Association for Investment Management and Research
5 Boar's Head Lane
P.O. Box 3668
Charlottesville, Virginia 22903-0668
U.S.A.
Tel: (804) 977-6600
Fax: (804) 977-1103
e-mail: webmaster@airmr.org
internet: www.airmr.org

Real Estate Council of British Columbia
900 - 750 West Pender Street
Vancouver, B.C. V6C 2T8
Tel: (604) 683-9664
Fax: (604) 683-9017
internet: www.realestatecouncil.bc.ca

For information about the membership requirements of the VSE, contact:

Vancouver Stock Exchange
P.O. Box 10333
609 Granville Street
Vancouver, B.C. V7Y 1H1
Tel: (604) 689-3334
Fax: (604) 682-8514
e-mail: information@vse.ca
internet: www.vse.ca

For information about membership requirements of the IDA - Pacific, contact:

Investment Dealers Association of Canada - Pacific District
P.O. Box 11614
1325 - 650 West Georgia Street

Vancouver, B.C. V6B 4N9
Tel: (604) 683-6222
Fax: (604) 683-3491

For information about the Contingency Trust Fund, contact the fund's trustee:

TD Trust Company
P.O. Box 10054
Pacific Centre
18th Floor, Toronto Dominion Tower
700 West Georgia Street
Vancouver, B.C. V7Y 1B6
Tel: (604) 654 - 5217
Fax: (604) 681 - 9692

For information about the Canadian Investors Protection Fund, contact:

Canadian Investor Protection Fund
P.O. Box 192, 200 Bay Street, Suite 2400, South Tower
Toronto, Ontario M5J 2J4
Tel: (416) 866-8366
Fax: (416) 360-8441
internet: www.cipf.ca