

## POLICY STATEMENT

Q-9

### DEALERS, ADVISERS AND REPRESENTATIVES

#### PART I - APPLICATION

1. The requirements of this policy statement apply to securities dealers and advisers as well as their representatives.

#### PART II - INTERPRETATION

2. In this policy statement:

"debt-like security" means a security (other than a conventional convertible security or a conventional floating rate debt instrument) which evidences an indebtedness of the issuer where the amount of interest and/or principal to be paid to the holder is linked in whole or in part by formula to the appreciation or depreciation in the market price, value or level of one or more underlying interests on a predetermined date or dates, or where the security provides the holder with a right to convert or exchange the security for the underlying interest or to purchase the underlying interest; provided, however, that for the purposes of this policy, if on the date of initial issue the value of the component which is linked to an underlying interest accounts for less than 20% of the total market value of the security, the security shall not be considered to be a debt-like security but instead shall be considered to be a debt.

"derivative" means a clearing corporation option, a futures contract, an option on futures, an over-the-counter option, a forward contract or a debt-like security;

"market intermediary" means a market intermediary as defined in the Act respecting Market Intermediaries (R.S.Q., c. I-15.1).

#### PART III - GENERAL PROVISIONS

##### DIVISION I - SPECIFIC ACTIVITIES

##### A) INTRODUCING BROKERS

3. The introducing broker who solicits orders from his clients in order to have them executed on a stock exchange or on the over-the-counter market by a carrying broker shall apply for registration as a dealer with an unrestricted practice.
4. The introducing broker may transmit orders to a carrying broker only after having entered into an agreement with that broker, subject to the approval of the Commission, setting forth their rights and obligations.

It may enter into such an agreement only with carrying brokers who are members of an exchange recognized by the Commission for that purpose or members of a self-regulatory organization recognized by the Commission for that purpose.

The introducing broker and the carrying broker meet the conditions determined by the self-regulatory organizations of which they are members.

5. The introducing broker with a head office in Québec is exempted from the obligations under subsections (1), (2), (3), (5) and (7) of section 222 of the Regulation, which are incumbent on the carrying broker.

6. The introducing broker with a head office outside Québec is exempted from the obligations under subsection (5) of section 222 of the Regulation and subsections (1) and (2) of section 223 of the Regulation, which are incumbent on the carrying broker.

#### B) DISCOUNT BROKERS

7. The discount broker may participate in a distribution inasmuch as he distributes securities exclusively to persons covered by the prospectus exemption under section 43 of the Act.

He may also act as a specialist in accordance with the Rules of the Montreal Exchange.

#### C) INVESTMENT CONTRACT DEALERS

8. The investment contract dealer who intends to distribute shares of a Québec Business Investment Company must obtain the approval of the Commission. The Commission may then subject its approval to certain conditions, including:

(1) the dealer shall not underwrite these securities;

(2) the collected funds shall be deposited forthwith in a trust account under the control of the issuer's trustee.

#### D) INTERNATIONAL FINANCIAL CENTRES

9. A person who intends to limit his activity as a dealer to what is permitted to an International Financial Centre as prescribed by the Regulation Respecting Income Tax (R.S.Q., c. I-3, r.1) shall apply for registration as an unrestricted practice dealer.

10. A person who intends to limit his activity as adviser to what is permitted to an International Financial Centre as prescribed by the Regulation Respecting Income Tax (R.S.Q., c. I-3, r.1) must apply for registration as an unrestricted practice adviser.

11. An unrestricted practice adviser or dealer who intends to establish an International Financial Centre must send a written notice to the Commission and may only carry out his activity in international transactions through registered representatives.

#### E) FINANCIAL PLANNING

12. A securities adviser or dealer who intends to carry out activities in financial planning as prescribed by the Act respecting Market Intermediaries (R.S.Q., c. I-15.1) shall obtain the Commission's approval and may only carry out his activity in financial planning through registered representatives.

#### F) DERIVATIVES

13. A securities adviser who intends to provide advice on derivatives shall obtain the Commission's approval.

#### G) SOLICITING POTENTIAL CLIENTS (TELEMARKETING)

14. The dealer who uses the telephone for soliciting purposes, particularly to seek clients in view of a meeting where a security will be offered to them, may only do so through registered representatives.

## DIVISION II - DISTRIBUTION OF SECURITIES TO THE PUBLIC

15. A dealer may distribute securities to the public subject to the following conditions:

(1) at least 40 per cent of the members of the board of directors shall come from the dealer;

(2) the appointment of other members of the board of directors shall be subject to no other restriction than that prescribed by section 228 of the Regulation;

(3) the composition of the quorum at meetings of the board of directors shall be subject to no restriction;

(4) the financial statements shall be submitted to an audit committee, composed of a majority of members of the board of directors who are independent from the dealer;

(5) the contribution to capital shall be subject to no other restriction than that prescribed by subsection (4) of section 228 of the Regulation.

## DIVISION III - MAJOR POSITIONS

16. When a legal person intends to take or strengthen a major position in the capital of a securities dealer or adviser, the latter shall comply with certain conditions, including:

(1) all its senior executives, other than the members of the board of directors, shall be distinct from the senior executives of the legal person which takes or strengthens its important position;

(2) at least 40 per cent of the members of the board of directors shall come from the dealer or adviser;

(3) except for cases expressly permitted by the Commission, all salaried employees, including those paid on a commission basis, must be distinct from the salaried employees of the legal person which takes or strengthens its major position;

(4) it shall keep separate books and records.

17. The conditions provided for in section 16 apply to an applicant for registration when a legal person holds an important position in the capital of the applicant.

## DIVISION IV - CARRYING ON OF ANOTHER ACTIVITY

18. The securities dealer or adviser who wishes to carry on an activity other than that of dealer or adviser shall obtain the Commission's approval in accordance with subsection (6) of section 228 of the Regulation. At that time, the Commission may demand that the dealer or adviser comply with certain conditions, including:

(1) the conduct of this activity shall be done within an appropriate corporate framework, for example, through one or more distinct legal persons;

(2) all its senior executives, other than the members of the board of directors, shall be distinct from the senior executives of the legal persons referred to in subsection (1);

(3) except in cases expressly permitted by the Commission, all salaried employees, including those paid on a commission basis, shall be distinct from the salaried employees of the legal persons referred to in subsection (1).

19. The conditions set out in section 16 and in subsection (1) of section 18 also apply, *mutatis mutandis*, when a financial institution, a subsidiary of a financial institution or an affiliate applies for registration as a securities dealer or adviser.

#### DIVISION V - RISK ADJUSTED CAPITAL, NET FREE CAPITAL OR WORKING CAPITAL

20. In the cases provided for in sections 16 to 19, the following conditions also apply:

(1) the dealer shall exclude from the calculation of his risk adjusted capital or net free capital any financial guarantee granted by the person holding a major position, except when it is subordinated;

(2) the adviser shall exclude from the calculation of his working capital any financial guarantee granted by the person holding a major position, except when it is subordinated;

(3) the dealer deducts from his risk adjusted capital or net free capital any financial guarantee that he gives to the person who holds a major position;

(4) the adviser deducts from his working capital any financial guarantee that he gives to the person who holds a major position.

#### DIVISION VI - SHARING OF COMMISSION

21. The dealer may share his commission with a market intermediary who referred a client to him provided the sharing is done in accordance with an agreement entered into with this market intermediary. Is also considered as a sharing of commission the payment of referral fees to another market intermediary.

The dealer who intends to enter into such an agreement shall notify the Commission, at least 30 days before signing the agreement, and shall provide with the notice all the necessary information to determine:

(1) if the proposed agreement involves selling methods, whether for securities, goods or services, which are prejudicial to the investors' protection;

(2) if it is likely to cause conflicts of interests;

(3) if it is likely to prevent him from complying with the requirements of its registration.

The agreement may be signed upon the Commission's approval or, if the Commission does not object, within at the expiry of a deadline of 30 days. The dealer shall file with the Commission, within 30 days following the execution, a copy of the signed agreement.

However, subsequently, the dealer may sign an identical agreement with another market intermediary without other formalities.

In case of material amendment an agreement, it is required to proceed in the same manner as for a new agreement.

22. The dealer who must share the commission paid by a client shall notify him in writing of the sharing terms and of the identity of the market intermediary with whom he must share.

23. The commission to the person sharing it shall be paid by cheque.

24. Any commission sharing is recorded without delay in a register of commission sharing where the following information is recorded with respect to each sharing:

(1) the identity of those sharing the commission with their address and industry segment:

(2) the subject and date of the transaction, as well as the identity of the persons who are parties thereto;

(3) the percentage of the commission or its amount and the way it is allocated between those sharing it.

#### DIVISION VII - DEALER'S PLACE OF BUSINESS

25. The dealer maintains at any time a clearly identified place of business and a separate telephone line.

#### DIVISION VIII - COMPLAINTS REGISTER

26. The securities dealer or adviser keeps a complaints register which includes the following information:

(1) the date of the complaint;

(2) the plaintiff's name;

(3) the name of the person who is the subject of the complaint;

(4) the security or services which are the subject of the complaint;

(5) the date and conclusions of the decision rendered in connection with the complaint.

#### DIVISION IX - RULES OF INTERNAL CONTROL

27. The securities dealer or adviser shall establish in writing rules of internal control, according to the provisions of appendix 1, allowing the senior executive in charge of the principal place of business in Québec to:

(1) oversee the opening and management of clients accounts;

(2) supervise representatives and office staff;

(3) ensure compliance with the Act, the Regulation, the Commission's policy statements and the rules of a self-regulatory organization of which he is a member.

### PART IV - REGISTRATION PROCEDURES

#### DIVISION I - SECURITIES DEALERS AND ADVISERS

28. An applicant for registration as a dealer, except in the case of an independent trader, shall demonstrate that it has the necessary human resources to carry on its activity. A minimum of two officers registered as representative, is required.

29. An applicant for registration as securities dealer or adviser shall file the following documents:

- (1) form 2, duly completed, in application of section 195 of the Regulation;
- (2) a certified copy of the resolution of the board of directors:
  - (a) authorizing senior executives to sign the application form;
  - (b) appointing the officer in charge of his business activity in Québec, in application of section 203 of the Regulation;
- (3) a copy of the incorporating documents of the firm;
- (4) a copy of the registration declaration made pursuant to the the Act respecting the legal publicity of sole proprietorships, partnerships and legal persons (R.S.Q., c. P-45)
- (5) a complete description of the projected activity: target clients (retail, institutional), goods and services offered (shares, securities of mutual funds, options, futures contracts, portfolio management ...);
- (6) except in the case of a security issuer, audited financial statements as at a date not more than 90 days before the date of application and signed in accordance with section 75;
- (7) in the case of a dealer with an unrestricted practice and of a discount broker, the report on risk adjusted capital required by the self-regulatory organizations;
- (8) in the case of a dealer with a restricted practice, except for the security issuer, the report on the net free capital provided for in appendix 2 as at the date of the financial statements;
- (9) a list of direct and indirect shareholders indicating their control;
- (10) except in the case of the security issuer, a detailed operating budget for the first year;
- (11) a proof of the opening of a trust account, if applicable;
- (12) a Form 3, duly completed by each senior executive, representative and shareholder holding a major position in the applicant's capital;
- (13) a copy of the insurance contract, in application of section 213 of the Regulation;
- (14) in the case of a dealer with an unrestricted practice and of the discount broker, a certificate evidencing his membership to a self-regulatory organization;
- (15) in the case of a dealer with a restricted practice, except for the discount broker, the independent trader and the security issuer, a copy of the contract of participation in a contingency fund, in application of section 215 of the Regulation;
- (16) a copy of one page of each book and register required under sections 220 to 224 of the Regulation;

- (17) a copy of one page of the complaints register provided for in section 26;
- (18) a copy of the account opening form provided for in section 232 of the Regulation, including the items listed in section 57;
- (19) if applicable, a copy of the statement of policies under section 234.2 of the Regulation;
- (20) in the case of a dealer, a copy of the confirmation slip provided for in sections 243 and 244 of the Regulation;
- (21) a copy of the statement of account provided for in sections 247 and 248 of the Regulation or the statement of securities under management provided for in section 249 of the Regulation;
- (22) a copy of the rules of internal control provided for in section 27;
- (23) if applicable, a copy of the portfolio management contract and a description of the method of computing the remuneration in accordance with section 240 of the Regulation;
- (24) a cheque to the order of the Minister of Finance in payment of the fees provided for in section 271.5 of the Regulation;

30. The adviser with an unrestricted practice may register without having a place of business in Québec provided he deals only with the following entities:

- (1) the Bank of Canada, a bank governed by the Bank Act (R.S.C., c. B-1) and the pension funds of these banks;
- (2) a trust company holding a license delivered pursuant to the Act Respecting Trust Companies and Savings Companies (R.S.Q., c. S-29.01) as well as the pension fund of such a company;
- (3) an insurance company holding a license delivered pursuant to the Act Respecting Insurance (R.S.Q., c. A-32) as well as the pension fund of such a company;
- (4) a savings company holding a license delivered pursuant to the Act Respecting Trust Companies and Savings Companies (R.S.Q., c. S-29.01) and a loan and investment society registered pursuant to the Loan and Investment Societies Act (R.S.Q., c. S-30);
- (5) the Gouvernement du Québec, the Government of Canada or of a province of Canada, a municipal corporation of more than 50 000 inhabitants, a public agency or a corporation whose voting shares are held by the Gouvernement du Québec, the Government of Canada or of a province of Canada, their ministries or agents;
- (6) a federation or a confederation of savings and credit unions pursuant to the Savings and Credit Unions Act (R.S.Q., c. C-4.1);
- (7) a mutual fund with net assets of \$10 000 000 or more;
- (8) a company pension fund in trust having assets of \$25 000 000 or more.

The adviser undertakes, in writing, to submit, on request, to an inspection by the Commission of his books and registers.

The adviser shall submit to the Commission, once a year and on request, a copy of each of the specimen contracts he has entered into with the various categories of clients.

31. The adviser with a restricted practice may register without having a place of business in Québec provided he complies with the following conditions:

(1) he shall undertake in writing to submit, on demand, to an inspection by the Commission of his books and records;

(2) he must undertake in writing to make available to the Commission, on request, the list of his clients in Québec.

## DIVISION II - REPRESENTATIVES AND SENIOR EXECUTIVES

32. The applicant for registration as a representative or approval as a senior executive shall file the following documents:

(1) a Form 3, duly completed;

(2) a cheque to the order of the Minister of Finance in payment of the fees under section 271.5 of the Regulation.

33. The applicant for registration as a representative or approval as a senior executive for a dealer which is a subsidiary of a financial institution, carrying out his activity in mutual funds or permanent shares may apply on Form 3A provided for in appendix 3.

## PART V

### PROFESSIONAL TRAINING AND EXERCISE OF DUTIES

#### DIVISION I - PROFESSIONAL

34. This Division defines the professional training required pursuant to section 205 of the Regulation.

##### A) SENIOR EXECUTIVES

35. An individual who intends to act as a senior executive, other than in the capacity of director, for a dealer with an unrestricted practice or a discount broker shall comply with the following requirements:

(1) have at least three pertinent years' experience in the securities field;

(2) pass the Partners' Directors' and Senior Officers' Qualifying Examination of the Canadian Securities Institute.

36. An individual who intends to act as a senior executive, other than in the capacity of director, for a mutual fund dealer, shall comply with the following requirements:

(1) have at least three years' experience in the securities field;

##### NOT IN FORCE

(2) pass the examination for officers, partners, and directors of the Investment Funds Institute of Canada.

37. An individual who intends to act as a senior executive, other than in the capacity of director, for an investment contract dealer shall comply with the following requirements:



- (1) have at least three years' pertinent experience in the securities field;
- (2) pass the required courses for representatives.

#### B) OFFICER IN CHARGE OF THE PRINCIPAL PLACE OF BUSINESS

38. The officer who intends to act as the officer in charge of the principal place of business in Québec for a dealer with an unrestricted practice, a discount broker or an investment contract dealer shall have passed the Canadian Branch Managers' Qualifying Examination of the Canadian Securities Institute.

#### NOT IN FORCE

39. The officer who intends to act as the officer in charge of the principal place of business in Québec for a mutual fund dealer shall have passed the Branch Managers' Examination of the Investment Funds Institute of Canada or of the Canadian Securities Institute.

#### C) OFFICERS RESPONSIBLE FOR DERIVATIVES TRADING

40. The officer who intends to act as the officer in charge of derivatives for a dealer with an unrestricted practice or a discount broker shall comply with the requirements of the self-regulatory organizations of which the dealer is a member.

41. The officer who intends to act as the officer in charge of derivatives for an adviser shall comply with the following requirements:

- (1) have at least three years' experience in the field of derivatives;
- (2) have successfully completed the courses required by self-regulatory organizations for a dealer's officer.

#### D) REPRESENTATIVES

42. An applicant for registration as a representative of a dealer with an unrestricted practice or a discount broker shall have successfully completed the examinations required by self-regulatory organizations of which the dealer is a member.

43. An applicant for registration as a representative of a dealer with an unrestricted practice or a discount dealer or the representative of a dealer with an unrestricted practice or a discount dealer who wishes to trade derivatives shall have successfully completed the courses required by self-regulatory organizations.

44. An applicant for registration as a representative of an adviser or a representative of an adviser who wishes to act as an adviser in derivatives shall comply with the following requirements:

- (1) have at least two years' pertinent experience in the field of derivatives;
- (2) have successfully completed the courses required by self-regulatory organizations for a dealer's representative.

45. An applicant for registration as a representative of a mutual fund dealer shall have successfully completed one of the following courses:

- (1) the Canadian Investment Funds Course of the Investment Funds Institute of Canada;

- (2) the course entitled "Investment Funds in Canada" of the Institute of Canadian Bankers;
- (3) the course entitled "Principles of Mutual Funds" of the Trust Company Institute;
- (4) the course entitled Placements des particuliers offered by some colleges (CEGEP);
- (5) the Canadian Securities Course of the Canadian Securities Institute;
- (6) the Segregated Funds and Mutual Funds Course of the Canadian Securities Institute.

46. An applicant for registration as representative of an investment contracts dealer shall have successfully completed the Canadian Securities Course of the Canadian Securities Institute.

47. An applicant for registration as representative of a scholarship plan dealer shall provide a certificate evidencing that he passed the dealer's examination.

48. An applicant for registration as a representative of a securities adviser with an unrestricted practice shall comply with the following requirements:

- (1) have at least five years' experience in portfolio management or in financial analysis in the field of securities;

- (2) hold a university degree in a relevant discipline or have successfully completed the course leading to the designation of "Certified Financial Analyst" (CFA).

49. An applicant for registration as a representative of an adviser with a restricted practice shall comply with the following conditions:

- (1) have at least three years' experience in financial analysis in the field of securities;

- (2) hold a university degree in a relevant discipline or have successfully completed the course leading to the designation of "Certified Financial Analyst" (CFA).

#### E) REPRESENTATIVES IN CHARGE OF A PLACE OF BUSINESS

50. The representative who intends to act as a representative in charge of a place of business of a dealer with an unrestricted practice, a discount broker or an investment contract dealer shall have successfully completed the Canadian Branch Manager Qualifying Examination of the Canadian Securities Institute.

#### NOT IN FORCE

51. The representative who intends to act as a representative in charge of a place of business for a mutual fund dealer shall have successfully completed the Branch Managers' Examination of the Investment Funds Institute of Canada or of the Canadian Securities Institute.

#### F) UPDATING OF TRAINING

52. An applicant for registration as a representative or approval as a senior executive who ceased exercising an activity directly related to the field of securities shall, at the expiry of the time limit, follow again the required course or pass the required examination:

Course of examination	Time limit
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(1) Canadian Securities Course of the Canadian Securities Institute;	5 years
(2) Scholarship Plan Course;	5 years
(3) Conduct and Practices Handbook Examination of the Canadian Securities Institute;	3 years
(4) Canadian Investment Funds Course of the Investment Funds Institute of Canada;	3 years
(5) course entitled "Investment Funds in Canada" of the Institute of Canadian Bankers;	3 years
(6) course entitled "Principles of Mutual Funds of the Trust Company Institute";	3 years
(7) course entitled Placements des particuliers offered by some colleges (CEGEP);	3 years
(8) Partners' Directors' and Senior Officers' Qualifying Examination of the Canadian Securities Institute;	3 years
(9) Officers', Partners', Directors Examination of the Investment Funds Institute of Canada;	3 years
(10) Canadian Branch Managers' Qualifying Examination of the Canadian Securities Institute;	3 years
(11) Branch Managers' Examination of the Investment Funds Institute of Canada;	3 years
(12) Registered Option Principal Course of the Canadian Securities Institute;	3 years
(13) Commodity Supervisors Examination of the Canadian Securities Institute;	3 years
(14) Commodity Options Supervisors Examination of the Canadian Securities Institute;	3 years
(15) course entitled "Canadian Investment Management" (Part I and Part II) of the Canadian Securities Institute;	3 years
(16) Canadian Options Course of the Canadian Securities Institute;	3 years
(17) course entitled "Canadian Futures Examination" (Part I and II) of the Canadian Securities Institute;	3 years
(18) the Segregated Funds and Mutual Funds Course of the Canadian Securities Institute.	
DIVISION II - EXERCICE OF DUTIES	

53. The representative of a securities dealer or adviser carries out his duties on a full-time basis, except in the following cases:

- (1) the dual activities provided for in section 149 of the Act and Part VIII;
- (2) the representative of an adviser with a restricted practice whose activity is limited to give advice through publications;
- (3) the representative of a dealer with a restricted practice specializing in scholarship plans.

However, in the last case, the following information shall be filed with the representative's registration application.

- the time the applicant will devote to the sale of scholarship plans;
- a letter from the branch manager whereby he undertakes to ensure a continuous follow-up of the individual's activities;

- a description of the applicant's field of activity and a supporting document evidencing the absence of conflicts of interests;
- a letter from the current employer whereby he agrees to the applicant acting as a scholarship plans representative.

54. The individual who is registered as a representative of a dealer or an adviser registered with another authority may, if he resides near the border, register as a representative for the same dealer or adviser in Québec inasmuch as the individual carry out his activity in Québec in the region where he resides only.

55. Any senior executive of a securities dealer or adviser who is declared bankrupt or makes an assignment of his assets shall notify the Commission within ten days.

#### PART VI ACCOUNT OPENING AND OBLIGATIONS TOWARDS CLIENTS

56. Any portfolio management agreement entered into between a client and a dealer or adviser with an unrestricted practice:

(1) shall contain a clause stipulating that the client retains the right to cancel the agreement at any time;

(2) shall indicate the name of the custodian responsible for the safekeeping of securities and cash belonging to the client and, in the case of a third party, the address.

#### DIVISION I - ACCOUNT OPENING

57. When an account is opened, the dealer in any category or the adviser shall complete a form which contains, in particular, the following information:

- (1) the client's name, address and telephone number;
- (2) the client's occupation, and the name, address and telephone number of his employer, and the sector of activity of the latter's firm;
- (3) the client's age;
- (4) the means through which initial contact was established (advertising, personal meeting, recommendation, walk-in or phone-in);
- (5) the type of account;
- (6) the client's investment objectives and his level of knowledge in the investment field;
- (7) the client's annual income and net assets;
- (8) the number of an account with a bank, trust company, credit union or credit fund of any individual duly authorized to give orders for the account;
- (9) the name and signature of any individual duly authorized to give orders for the account;
- (10) the representative name;

(11) the signature of the officer who approved the account.

The information in the form shall be kept up-to-date.

The account opening form and updates are filed and kept in the client's record during at least five years following the date at which the account was closed.

58. The adviser with a restricted practice whose activity is limited to giving advice through publications is exempted from the requirements provided for in section 57.

59. The discount broker is exempted from the requirements provided for in subsection (6) of section 57 provided he complies with the following requirements:

(1) the contract entered into when opening the account stipulates, in bold type, that the dealer doesn't give any advice, and doesn't check if the client's investments are in accordance with his objectives;

(2) the representatives are not paid on a commission basis nor according to the quantity or value of executed orders.

#### A) DERIVATIVES ACCOUNTS

60. In the case of derivatives accounts, the client shall sign an options or futures trading agreement in compliance with the rules of self-regulatory organizations.

In addition, the client shall acknowledge receipt in writing of the information document provided for in section 67 of the Act.

61. In the case of derivatives accounts, the form provided for in section 57 indicates the client's years of experience in options or futures trading, as well as the approximate maximum amount available for this type of trading.

#### B) MARGIN ACCOUNTS

62. In the case of margin accounts, the client shall sign a margin account agreement in compliance with the rules of self-regulatory organizations which defines each party's rights and obligations.

#### C) ACCOUNTS IN THE NAME OF A LEGAL PERSON

63. Before opening an account in the name of a legal person, except in the case of a financial institution, the securities dealer or adviser shall obtain from such a person:

(1) a certified true copy of a resolution of the board of directors authorizing the opening of an account;

(2) a certified true copy of a resolution of the board of directors authorizing specifically appointed persons to trade in the account.

The dealer shall not execute an order given, on behalf of a legal person, by an individual not designated in the original resolution, unless he receives a copy of a new resolution authorizing that person to give orders.

64. The adviser with a restricted practice whose activity is limited to give advice through publications is exempted from the obligations provided for in section 63.

#### D) ACCOUNTS WITH AN INTRODUCING BROKER

65. When opening an account, the introducing broker shall give the client a document, disclosing his relationship with the carrying broker in compliance with the rules of the self-regulatory organizations.

The introducing broker shall obtain from his client an acknowledgement of receipt of this document.

#### E) ACCOUNTS WITH A FINANCIAL PLANNER

66. When opening an account for financial planning services, the securities dealer or adviser duly authorized to act as such shall provide the client with a document, approved by the Commission, disclosing the following:

- (1) the financial planning mandate that the client gives to the dealer;
- (2) the basis of compensation for services and conflicts of interests which may result from the fact that this compensation may be based on the commission for the sale of products that will be recommended to the client;
- (3) the obligation to keep the collected information strictly confidential and not to disclose it without the investor's written authorization;
- (4) the responsibilities he has through his respective duties as a securities dealer or adviser and financial planner;
- (5) the dealer's and his representatives' category of registration;
- (6) the referral fees or commissions sharing and related agreements.

The dealer or adviser gets his client to sign the document and files it to his record.

#### DIVISION II - PURCHASE FORM, MUTUAL FUNDS

67. The securities dealer using a purchase form when distributing mutual funds securities shall indicate the gross amount of the transaction, the total purchase fees including brokerage fees paid to the dealer, the net amount of the investment as well as the representative's name.

The reference, if applicable, to the effect that the client acknowledges receipt of the prospectus, shall appear in bold type.

#### DIVISION III - LEVERAGING, MUTUAL FUNDS

68. The mutual fund dealer shall provide the prospective purchaser of mutual fund securities with a disclosure document when, to the dealer's knowledge, he considers borrowing funds to pay for the purchase. This document, provided for in appendix 4, gives some information including on the risks of excessive use of leveraging.

The delivery of this document shall not alter the dealer's obligation to ensure that the transaction is in agreement with the client's financial position and investment objectives.

#### DIVISION IV - CASH RECEPTION

69. Upon receipt of an amount of \$10 000 or more, the securities dealer or adviser shall complete for each account a form entitled "Declaration of Funds" containing the following information:

- (1) the name of the individual from whom cash has been received;
- (2) the individual's identity, in relation to his status as a resident (Canadian, American or other countries);
- (3) the address, occupation and principal business;
- (4) the date and nature of the transaction;
- (5) the number of the accounts involved in the transaction;
- (6) the amount received in cash and the currency;
- (7) information on cash amounts received on behalf of third parties.

The form is filed to the client's record.

#### DIVISION V - SETTLEMENT OF A TRANSACTION

70. A transaction is settled in accordance with the rules of self-regulatory organizations and clearing agencies, if applicable.

#### DIVISION VI - CARRYING BROKER'S OBLIGATIONS

71. The carrying broker is responsible to the client except in the case of the obligation prescribed by section 161 of the Act and the obligations relative to the account opening which are incumbent upon the introducing broker.

#### PART VII - FINANCIAL REQUIREMENTS

##### DIVISION I - INSURANCE OR SURETY

72. The dealer with an unrestricted practice and the discount broker shall maintain an insurance coverage or bond in accordance with the rules of self-regulatory organizations of which the dealer is a member.

73. The mutual fund, scholarship plans or investment contract dealer maintains a insurance coverage or bond in each of the following categories:

- (1) fidelity;
- (2) loss or damage on premises;
- (3) loss or damage in transit.

##### DIVISION II - MARGIN REQUIREMENTS

74. A dealer with an unrestricted practice and a discount broker and their clients shall meet the margin requirements of the self-regulatory organizations of which the dealer is a member.

##### DIVISION III - ANNUAL FINANCIAL STATEMENTS, AUDITOR'S REPORT AND OTHER DOCUMENTS

75. The audited annual financial statements that the dealer or adviser shall file with the Commission within 90 days after the end of its financial year pursuant to section 158 of the Act shall be signed by all the partners in the case of a partnership or by two directors in the case of a company.

#### A) DEALERS WITH AN UNRESTRICTED PRACTICE AND DISCOUNT BROKERS

76. The financial statements of a dealer with an unrestricted practice and the discount broker shall include:

- (1) a balance sheet;
- (2) a statement of income;
- (3) a statement of retained earnings;
- (4) a statement of changes in financial position.

77. The dealer with an unrestricted practice and the discount broker shall file with the Commission:

- (1) the joint regulatory financial questionnaire and report provided for in the rules of the self-regulatory organizations;
- (2) a copy of appendix CO-771.R. 3-V, "Allocation of business made in Québec and outside of Québec" from the Ministry of Revenue of Québec.

78. Within 30 days following the end of each month, the dealer with an unrestricted practice or the discount broker which is not a member of a self-regulatory organization shall file with the Commission the report on risk adjusted capital provided for in the rules of the self-regulatory organizations.

#### B) DEALERS WITH A RESTRICTED PRACTICE

79. The financial statements of a dealer with a restricted practice, except those of a discount broker, shall include:

- (1) a balance sheet;
- (2) a statement of income;
- (3) a statement of retained earnings;
- (4) a statement of changes in financial position.

80. Within 30 days following the end of each period of 2 months, a dealer with a restricted practice, except the discount broker and the security issuer, shall file with the Commission the report provided for in Appendix 2.

The Commission may, depending on the situation of the dealer, require filing of the report on a monthly basis.

81. The following dealers are exempted from section 80:

- (1) a financial institution;



(2) a dealer related to a financial institution, provided the financial institution notifies the Commission in writing to the effect it undertakes to maintain at any time the net free capital required for its subsidiary;

(3) any other dealer designated by the Commission.

82. The independent trader is exempted from the requirement, provided for in section 158 of the Act, to shall file the annual financial statements with the Commission.

83. The independent trader who complies with the financial requirements of the Montréal Exchange is exempted from section 208 of the Regulation.

#### C) SECURITIES ADVISERS

84. The adviser's financial statements include:

- (1) a balance sheet
- (2) a statement of income;
- (3) a statement of retained earnings;
- (4) a statement of changes in financial position;
- (5) an inventory, valued at market, of securities owned by the adviser.

85. Within 90 days following his year-end, the adviser shall file with the Commission the report provided for in Appendix 5.

#### D) SECURITIES DEALERS AND ADVISERS

86. Within 90 days following the end of his financial year the securities dealer or adviser shall file with the Commission:

- (1) a list, in alphabetical order:
  - (a) of the representatives who are registered at year-end;
  - (b) of the representatives who are registered for each branch and sub-branch, identifying the name of the branch manager;
  - (c) of the registered representatives who are qualified to act as financial planners;
  - (d) of the registered representatives who ceased carrying their activity during the last year;
- (2) a proof of the payment of the annual fees to the Institut québécois de planification financière and a proof a liability insurance coverage for the representative who is qualified to act as a financial planner;
- (3) a list of self-regulatory organizations of which the dealer is a member;
- (4) a list of officers, with their title and home address;

- (5) a list of directors, with their home address;
- (6) a list of the direct and indirect shareholders holding a major position, indicating their control (number and percentage of securities) and their address;
- (7) the report provided for in Part 11 or 12 of the National Policy Statement No. 39, if applicable.

87. The dealer of any category or the adviser with an unrestricted practice files with the financial statements provided for in section 158 of the Act, a resolution of the Board of directors certifying that he reviewed the insurance coverage and considers it is adequate or that an adjustment is made to this coverage in order to make it adequate.

If applicable, the adjustments made are specified and the relevant documents are filed with the Commission.

The dealer with an unrestricted practice and the discount broker who are members of a self-regulatory organization are exempted from the application of this section.

88. The securities dealer or adviser shall file with the Commission, at the time of a borrowing subject to section 212 of the Regulation, the Subordinated Loan Agreement Form provided for in Appendix 6.

## PART VIII - DUAL ACTIVITIES

### DIVISION I - INSURANCE OF PERSON OR DAMAGE INSURANCE

89. The holder of a market intermediary certificate delivered pursuant to the Act respecting Market Intermediaries (R.S.Q., c. I-15.1) may be registered as a securities dealer representative.

90. The representative may carry out his activity on behalf of one dealer only and all the securities trading made on behalf of his clients must be made through this dealer.

In particular, the representative shall not transit his clients' orders or funds directly to mutual funds.

### DIVISION II - FINANCIAL PLANNING

91. The representative acting as a financial planner who intends to use this designation or a similar title shall comply with the following conditions:

(1) he shall obtain an authorization from the dealer or adviser he works for, which one obtained, in accordance with section 12, the Commission approval to carry out activities in financial planning;

(2) he shall notify the Commission in writing, by forwarding a copy of his employer's authorization, a copy of the degree entitling him to this designation and a proof of payment of the membership fees provided for in section 29 of the Act respecting Market Intermediaries (R.S.Q., c. I-15.1).

(3) he shall forward to the Commission, upon payment of the fees provided for in subsection (3), (4) or (5) of section 271.5 of the Regulation, a proof of the payment of the fees provided for in section 29 of the Act respecting Market Intermediaries (R.S.Q., c. I-15.1).

The representative shall carry his activity as a financial planner on behalf of the securities dealer or adviser.

92. The representative who is authorized to act as a financial planner pursuant to the Act respecting Market Intermediaries (R.S.Q., c. I-15.1) shall use this designation or a similar one only with the title of the dealer's or adviser's representative.

#### PART IX - DELEGATION OF POWERS

93. The Commission delegates to the Directeur de l'encadrement du marché the application of this Policy Statement, except Division I of Part V.

The Commission delegates to the Chef du Service de l'inscription et de l'inspection the application of Division I of Part V "Professional Training" and, in his absence, to the Directeur de l'encadrement du marché.

The Directeur de l'encadrement du marché may, at the conditions he determines allow a person to depart from dispositions of Division I of Part V "Professional Training".

#### PART X - EFFECTIVE DATE

94. This Policy Statement is effective December 1, 1994, except the subsections 2 of section 36 and sections 39, 51 and 57. Section 57 will be effective February 1, 1995. Subsection 2 of section 36 and sections 39 and 51 will be effective once the Commission approves the courses of Investment Funds Institute of Canada.

Furthermore, the Commission repeals, effective December 1, 1994, the decision no 6873 dated July 13, 1983, revised by the decisions no. 7021, 7336, 7446, 7744A, 7932, 8051, 8229, 88-C-0635 and 89-C-0121.

Décision n° 94-C-0395 -- 5 octobre 1994

Modification :

Décision 1999-C-0415 -- 22 septembre 1999

## APPENDICES

### APPENDIX 1 - Rules of Internal Control for the Securities Dealer and Adviser

Commission des valeurs mobilières du Québec  
Policy Statement Q - 9

THE FOLLOWING CONTROL ITEMS DO NOT NECESSARILY APPLY TO ALL CATEGORIES OF DEALERS.

1.	<p><b>SUPERVISION AND MANAGEMENT OF CLIENTS' ACCOUNTS</b></p> <p>(1) Account Opening</p> <p>The existing rules must allow the officer responsible for accounts opening to ensure that:</p> <ul style="list-style-type: none"><li>(a) the account opening forms are completed adequately</li><li>(b) all the documents concerning the opening of accounts are obtained;</li><li>(c) incomplete forms are corrected promptly before making the first transaction;</li><li>(d) the forms are updated periodically.</li></ul> <p>(2) Management of Clients' Accounts</p> <p>The existing rules must allow the person in charge of the management of clients' accounts to ensure that:</p> <ul style="list-style-type: none"><li>(a) the transactions made for the clients' accounts are in conformity with the clients' investment objectives;</li><li>(b) the investments offered to clients comply with the applicable regulation in Quebec;</li><li>(c) the transactions are carried out promptly;</li><li>(d) the corrections to be made to confirmations and statements of accounts are made quickly;</li><li>(e) when a distribution is withdrawn due to an insufficient number of purchasers, investors are reimbursed quickly;</li><li>(f) in the case of a mutual fund dealer, the requirements of section 12.03 of the National Policy Statement No. 39 are met;</li><li>(g) cash transactions exceeding \$10 000 are subject to a specific treatment under the provisions of the Act to facilitate combatting the laundering of proceeds of crime (C.S. 1991, c. 26).</li></ul> <p>The existing rules must allow the person in charge of complaints settlements to ensure that:</p> <ul style="list-style-type: none"><li>(h) the complaints record is complete and indicates, among other things, the nature of the complaint and the decision rendered;</li><li>(i) a copy of the complaint is filed in the client's record.</li></ul> <p>(3) Advertisement</p> <p>The existing rules must allow the person responsible for approving advertising to ensure that:</p> <ul style="list-style-type: none"><li>(a) any advertisement is approved prior to its publishing;</li></ul>
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(b) any advertisement related to a distribution is approved by the issuer prior to its publishing;

(c) any advertisement related to a mutual fund meet section 16 of National Policy Statement No. 39.

(4) Plan of Distribution

The existing rules must allow the dealer to ensure compliance with the plan of distribution stated in the prospectus or offering memorandum.

(5) Cash Control

The existing rules must allow the person in charge of the opening and management of bank accounts to ensure that:

- (a) the access to bank accounts is limited to authorized persons;
- (b) all the cheques received are endorsed upon receipt;
- (c) the amounts collected in order to purchase securities are deposited quickly in a trust account;
- (d) the persons who receive the funds are different from the ones who are in charge of accounting.

(6) Management of Places of Business

The existing rules must allow the officer in charge of the principal place of business to ensure that the activities of all establishments are well controlled.

(7) Control of Data Processing

The existing rules must allow the person in charge of data processing to ensure that:

- (a) access to computers is limited to authorized personnel;
- (b) computer safety procedures are adequate.

2. SUPERVISION OF REPRESENTATIVES AND CLERICAL STAFF

(1) Supervision of Representatives

The existing rules must allow the representatives' supervisor to ensure that:

- (a) the representatives are honest and qualified;
- (b) the representatives are registered with the Commission before trading on behalf of a client or on their own behalf;
- (c) the representatives carry out their activities on a full-time basis;
- (d) the trading is done professionally and according to the clients' investment objectives;
- (e) the sales methods are suitable;
- (f) the clients' files are well maintained.

(2) Supervision of Office Staff

The existing rules must allow the supervisor of office staff to ensure that:

- (a) office staff is qualified to carry out its mandate;
- (b) the work done by clerical staff is satisfactory.

### 3. COMPLIANCE WITH REGULATION

The existing rules must allow the compliance officer to ensure that:

- a) the company and its representatives comply with the securities regulation, including the provisions of sections 225 to 228 of the Regulation;
- b) the representatives are notified quickly of the amendments to the regulation of securities.

## APPENDIX 2 - Monthly Report on Net Free Capital

Commission des valeurs mobilières du Québec  
Policy Statement Q - 9

THIS REPORT IS PREPARED ON THE ACCRUAL BASIS OF ACCOUNTING. THIS REPORT IS TYPEWRITTEN.

DEALER'S _____	NAME: _____
Person to contact: _____ Tel.: _____	
Title: _____	
Current month: _____	

	Current month (\$)	Previous month (\$)
1. NET FREE CAPITAL		
Quick assets (A)		
Cash	_____	_____
Securities owned and negotiable any time (B)	_____	_____
Commissions receivable (30 days or less)	_____	_____
Income tax recoverable or overpaid (C)	_____	_____
Other assets receivable (30 days or less) (explain)	_____	_____
Quick assets (1)	_____	_____
Liabilities (D)		
Loans and bank overdrafts	_____	_____
Other loans (E)	_____	_____
Accounts payable and accrued liabilities	_____	_____
Commissions payable	_____	_____
Provision for income tax payable	_____	_____
Other liabilities (explain)	_____	_____
Liabilities (2)	_____	_____
NET FREE CAPITAL (3)=(1)-(2)	_____	_____
NET FREE CAPITAL REQUIRED (F) (4)	_____	_____
Amount receivable under a standby subordinated loan from a Canadian chartered bank (5)	_____	_____
EXCESS (DEFICIT) OF NET FREE CAPITAL (3)-(4)+(5)	_____	_____

	Current month	Previous month

	(\$)	(\$)
<b>2. TRUST ACCOUNTS (SECTION 12.03, N.P. NO. 39)</b>		
Cash at the end of the period:	_____	_____
Amount payable to mutual funds at the end of the period	_____	_____
0 - 10 days	_____	
11 - 30 days	_____	
over 30 days	_____	
Cash and the amount payable to mutual funds shall not be included in part 1 of the report.		
_____ (signature - president)	_____ (signature - chief financial officer)	
_____ (date)	_____ (date)	

#### NOTES

(A) Do not include the following items:

- contribution to a contingency fund approved by the Commission,
- prepaid expenses,
- deferred charges,
- investments in and advances to subsidiaries and affiliated companies,
- advances to shareholders, senior executives, representatives and other employees.

(B) Do not include investment contracts.  
Include all other securities negotiable any time, including deposit certificates.  
Indicate the securities at market value.

(C) Take a provision of 25% from the receivable amount.

(D) Do not include the following items:

- long-term portion of loans guaranteed by other than quick assets,
- long-term portion of capital leases,
- deferred income taxes payable for other than quick assets.

(E) Include all short-term and long-term loans except in the case of subordinated loans.

(F) The dealer always has the net free capital provided for in sections 207 and 208 of the Regulation.



APPENDIX 3 - Uniform Application for Registration  
Form 3A

Commission des valeurs mobilières du Québec  
Policy Statement Q - 9

This form is available on request to the  
Commission des valeurs mobilières du Québec

Telephone

(514) 940-2150

## APPENDIX 4 - Using Leveraging to Buy Mutual Funds Securities

Commission des valeurs mobilières du Québec  
Policy Statement Q - 9

### Disclosure Document

#### BORROWING MONEY TO BUY INVESTMENT FUNDS (LEVERAGING)

The Commission des valeurs mobilières du Québec requires the delivery of this document to investors who consider borrowing money to buy mutual funds (investment funds) to make investors aware of the risks involved in borrowing to invest.

Mutual funds may be purchased using available cash, or a combination of cash and borrowed money. If you use cash to pay for your fund purchase in full, your percentage gain or loss will equal the percentage increase or decrease in the value of your fund securities. The purchase of mutual funds using borrowed money magnifies the gain or loss on your cash invested. This effect is called leveraging. For example, if \$100,000 of funds are purchased and paid for with \$25,000 from available cash and \$75,000 from borrowing, and the value of the fund securities declines by 10% to \$90,000, your equity interest (the difference between the value of your fund securities and the amount borrowed) has declined by 40%, i.e. from \$25,000 to \$15,000.

It is apparent that leveraging magnifies gains or losses. It is important you know that a leveraged purchase of mutual funds involves greater risk than a purchase using your cash resources only. To what extent a leveraged purchase involves undue risk is a determination to be made on an individual case by case basis by each purchaser, and will vary depending on the circumstances of the purchase and the mutual fund purchased.

It is also important that you be aware of the terms of arrangements made where a loan is secured by mutual funds. The lender may require that the amount outstanding on the loan not fall below an agreed percentage of the market value of the mutual fund securities. Should this occur, the borrower must pay down the loan or sell the securities so as to return the loan to the agreed percentage relationship. In our example above, the lender may require that the loan not exceed 75% of the market value of the securities. On a decline in value of the securities to \$90,000, the borrower must reduce the loan to \$67,500 (75% of \$90,000). If the borrower does not have cash available, he must sell securities at a loss to provide money to reduce the loan.

Money is, of course, also required to pay interest on the loan. Under these circumstances, investors who leverage their investment are advised to have adequate financial resources available both to pay interest, and also to reduce the loan if the borrowing arrangements require such a payment.

# APPENDIX 5 - Annual Report on Working Capital

Commission des valeurs mobilières du Québec  
Policy Statement Q - 9

THIS REPORT IS PREPARED ON THE ACCRUAL BASIS OF ACCOUNTING. THIS REPORT IS TYPEWRITTEN.

ADVISER'S	NAME:
Person to contact: _____	Tel.: _____
Title: _____	
Current year: _____	

	Current year (\$)	Previous year (\$)
<b>CURRENT ASSETS (A, B)</b>		
Cash	_____	_____
Trust accounts	_____	_____
Temporary investments (at market value)	_____	_____
Accounts receivable	_____	_____
Income tax receivable	_____	_____
Other investments (explain)	_____	_____
Other assets (explain)	_____	_____
Current assets	(1) _____	_____
<b>CURRENT LIABILITIES (C)</b>		
Loans	_____	_____
Bank overdrafts	_____	_____
Accounts payable and accrued liabilities	_____	_____
Income tax payable	_____	_____
Deferred revenue	_____	_____
Other liabilities (explain)	_____	_____
Current liabilities	(2) _____	_____
<b>WORKING CAPITAL</b>	(3)=(1)-(2) _____	_____
<b>REQUIRED WORKING CAPITAL (D)</b>	(4) _____	_____
<b>EXCESS (DEFICIT) OF WORKING CAPITAL</b>	(3)-(4) _____	_____
_____	_____	_____
(signature - president)	(signature - chief financial officer)	

(date)

(date)

NOTES

(A) Assets available within a year.

(B) Do not include the following items:

- investments in and advances to subsidiaries and affiliated companies,
- advances to shareholders, senior executives, representatives and other employees.

(C) Liabilities payable within a year.

(D) The adviser has at any time the working capital provided for in section 209 of the Regulation.

APPENDIX 6 - Subordinated Loan Agreement

Commission des valeurs mobilières du Québec  
Policy Statement Q - 9

Agreement entered into on \_\_\_\_\_ in \_\_\_\_\_ in the  
province of \_\_\_\_\_  
BETWEEN : \_\_\_\_\_ (lender)

(name)

(address)

AND : \_\_\_\_\_ (borrower)

(name)

(address)

1. The lender accepts the subordinated loan agreement with the borrower, in the event of the latter's dissolution, liquidation or bankruptcy. Consequently, the lender will not be entitled to reimbursement before all of the borrower's other creditors have been paid.

2. The lender may not accept reimbursement, nor may the borrower offer it, without the approval of the Commission des valeurs mobilières du Québec. This restriction does not extend to the interest indicated in section 3.

3. The borrower acknowledges having borrowed from the lender the following sums and securities :

Date of loan	Interest	Expiry	Description of Securities (as the case may be)	Amount (\$000)
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Total:				_____

Signed at \_\_\_\_\_ , \_\_\_\_\_ , in triplicate.

Borrower

Lender \*

(signature)

(signature)

(name in block letters)

(name in block letters)

Witnesses

(signature)

(signature)

(name in block letters)

(name in block letters)

(address)

(address)

\* IN THE CASE OF A COMPANY, ATTACH THE RESOLUTION APPROVING THE  
SIGNING OF THIS AGREEMENT.