

Regulations and other acts

Gouvernement du Québec

O.C. 1121-99, 29 September 1999

An Act respecting the distribution of financial products and services
(1998, c. 37)

Credit unions — Insurance products

Insurance products distributed by credit unions

WHEREAS the first paragraph of section 573 of the Act respecting the distribution of financial products and services (1998, c. 37) provides that in addition to the insurance products referred to in sections 424 and 426 of the Act, a credit union governed by the Savings and Credit Unions Act (R.S.Q., c. C-4.1) may, in accordance with the provisions of Title VIII of the Act respecting the distribution of financial products and services, continue to distribute the insurance products it distributed on 20 June 1998;

WHEREAS under the second paragraph of section 573 of the Act, which came into force on 24 February 1999 by Order in Council 152-99 dated 24 February 1999, the Government shall, by order, identify the products;

WHEREAS credit unions distributed the following insurance products on 20 June 1998:

1. Assurance du crédit variable Desjardins, a life insurance plan distributed since June 1954;
2. Assurance Sécurivie Desjardins, a life insurance plan distributed since September 1995;
3. Assurance budget Desjardins, a disability insurance plan distributed since May 1998;
4. Rentes viagères Desjardins, a pension plan distributed since 1983;
5. Assurances collectives des entreprises et des travailleurs autonomes, a life insurance and health insurance plan distributed since September 1986;
6. Accirance, a life insurance and health insurance plan distributed since May 1958;

WHEREAS it is expedient to authorize credit unions to continue to distribute those insurance products without

acting through a representative in accordance with Title VIII of the Act respecting the distribution of financial products and services;

IT IS ORDERED, therefore, upon the recommendation of the Minister of State for the Economy and Finance and Minister of Finance:

THAT, in accordance with the second paragraph of section 573 of the Act respecting the distribution of financial products and services (1998, c. 37), credit unions governed by the Savings and Credit Union Act (R.S.Q., c. C-4.1) be authorized, in addition to the insurance products referred to in sections 424 and 426 of the Act respecting the distribution of financial products and services, to continue to distribute without acting through a representative, from 1 October 1999, the following insurance products:

1. Assurance du crédit variable Desjardins;
2. Assurance Sécurivie Desjardins;
3. Assurance budget Desjardins;
4. Rentes viagères Desjardins;
5. Assurances collectives des entreprises et des travailleurs autonomes;
6. Accirance.

MICHEL NOËL DE TILLY,
Clerk of the Conseil exécutif

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Gouvernement du Québec

O.C. 1122-99, 29 September 1999

An Act respecting the distribution of financial products and services
(1998, c. 37)

Practice in the securities field

Regulation respecting practice in the securities field

WHEREAS, under sections 202 and 214 of the Act respecting the distribution of financial products and services (1998, c. 37), the Commission des valeurs

mobilières du Québec may make regulations on the matters referred to therein;

WHEREAS, under the second paragraph of section 202 and section 217 of that Act, regulations made under the first paragraph of section 202 and section 214 must be submitted to the Government for approval with or without amendment;

WHEREAS, under sections 202 and 214 of that Act, the Commission des valeurs mobilières du Québec made the Regulation respecting practice in the securities field;

WHEREAS, under section 12 of the Regulations Act (R.S.Q., c. R-18.1), a draft regulation may be approved without having been published in accordance with section 8 of that Act, where the authority approving it is of the opinion that the urgency of the situation requires it;

WHEREAS, under section 18 of that Act, a regulation may come into force on the date of its publication in the *Gazette officielle du Québec*, where the authority approving it is of the opinion that the urgency of the situation requires it;

WHEREAS, under sections 13 and 18 of that Act, the reason justifying the absence of prior publication and such coming into force must be published with the regulation;

WHEREAS the Government is of the opinion that the absence of prior publication and such coming into force of the Regulation respecting practice in the securities field are justified by the urgency due to the following circumstances:

— the main provisions concerning the application of the Act respecting the distribution of financial products and services, including those respecting securities representatives, come into force on 1 October 1999; it is therefore expedient that the provisions of this Regulation be approved and come into force as soon as possible in order to ensure the continuity of certain financial products investments;

WHEREAS it is expedient to approve the Regulation, with amendments;

IT IS ORDERED, therefore, upon the recommendation of the Minister of State for the Economy and Finance and Minister of Finance:

THAT the Regulation respecting practice in the securities field, attached to this Order in Council, be approved.

MICHEL NOËL DE TILLY,
Clerk of the Conseil exécutif

Regulation respecting practice in the securities field

An Act respecting the distribution of financial products and services
(1998, c. 37, ss. 202 and 214)

DIVISION I SCOPE

1. This regulation applies to the securities representatives referred to under the first paragraph of section 9 of the Act respecting the distribution of financial products and services (1998, c. 37).

DIVISION II CONDITIONS AND RESTRICTIONS ON PRACTICE

§1. *Securities sectors*

2. The representative carries out his duties associated with the securities field, the administration of the firm and the distribution of other financial products and services in accordance with the Act on a full-time basis.

3. The representative may offer permanent shares and preferred shares in accordance with section 54 of the Act by providing the Financial Services Bureau with a written declaration demonstrating that he has the training recognized by a confederation governed by the Savings and Credit Union Act (R.S.Q., c. C-4.1).

§2. *Group savings plan brokerage sector*

4. The representative must require the payment in full for a purchase of shares or units of a mutual fund, except in the case of a contractual plan.

§3. *Scholarship plan brokerage sector*

5. Despite section 2, the scholarship plan representative may carry out his activities on a part-time basis.

DIVISION III REPRESENTATIONS AND SOLICITATION OF CUSTOMERS

§1. *Information to customers*

6. The group savings plan representative shall provide the prospective purchase 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 I, 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 customer's financial position and investment objectives.

§2. Groups savings plan brokerage sector

7. The group savings plan representative may not participate, even indirectly, in the distribution of a mutual fund whose advertising standards or commercial practices are not in compliance with the Securities Act (R.S.Q., c. V-1.1).

8. This regulation comes into force on the day of its publication in the *Gazette officielle du Québec*.

APPENDIX I

(s. 6)

DISCLOSURE DOCUMENT

Borrowing money to buy investment funds (leveraging)

The Regulation respecting practice in the securities field, enacted by the Commission des valeurs mobilières du Québec pursuant to An Act respecting the distribution of financial products and services (1998, c. 37), and approved by the government by Order in Council No. 1122-99 of 22 September 1999, 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 pur-

chaser, 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.

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Gouvernement du Québec

O.C. 1123-99, 29 September 1999

An Act respecting the distribution of financial products and services (1998, c. 37)

Securities firms

— Trust accounts and financial resources

Regulation respecting the trust accounts and financial resources of securities firms

WHEREAS under subparagraphs 1 and 2 of the first paragraph of section 227 of the Act respecting the distribution of financial products and services (1998, c. 37), the Commission des valeurs mobilières du Québec may, by regulation, determine the rules relating to the establishment and maintenance of the trust accounts that must be maintained by a firm acting through a securities representative and the rules relating to the financial resources that must be maintained by a firm acting through a securities representative;

WHEREAS under the second paragraph of that section, a regulation made under the first paragraph shall be submitted to the Government for approval with or without amendment;