

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.

3147

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;

WHEREAS under that section, the Commission des valeurs mobilières du Québec made the Regulation respecting the trust accounts and financial resources of securities firms;

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 as prescribed in section 8 of the Act, where the authority approving it is of the opinion that the urgency of the situation requires it;

WHEREAS under section 18 of the 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 the Act, the reason justifying the absence of prior publication and such coming into force shall 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 the trust accounts and financial resources of securities firms 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, especially those regarding securities representatives, come into force on 1 October 1999; it is therefore expedient that the provisions of this Regulation be approved and that they come into force as soon as possible to ensure the clients' security;

WHEREAS it is expedient to approve this 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 the trust accounts and financial resources of securities firms, attached to this Order in Council, be approved.

MICHEL NOËL DE TILLY,
Clerk of the Conseil exécutif

Regulation respecting the trust accounts and financial resources of securities firms

An Act respecting the distribution of financial products and services
(1998, c. 37, s. 227)

DIVISION I PURPOSE AND SCOPE

1. This regulation applies to firms acting through 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) and sets forth the rules pertaining to the opening and maintenance of the trust account and the maintenance of sufficient financial resources by such firms.

DIVISION II TRUST ACCOUNT

§1. Opening and maintenance of the account

2. The firm shall open and maintain an interest-bearing trust account with a financial institution for the purpose of holding money received on behalf of third parties as the result of carrying on operations in a securities sector.

3. All interest received from the trust account, net of applicable banking fees, shall be paid no less frequently than monthly to the mutual funds or the subscribers or purchasers, pro rated on cash flow.

§2. Firm registered in the group savings brokerage sector

4. In this Division:

“distributing firm” means a firm acting through group sales representatives and participating with a mutual fund or with a principal distributor in the distribution of the securities of a mutual fund;

“principal distributor” means a group savings firm through which the securities of a mutual fund are distributed under a contract with the mutual fund, its trustee or another legal representative or its manager under which it holds the exclusive right to distribute the securities of the mutual fund in a jurisdiction or any other right that provides or seeks to provide to the principal distributor a significant competitive advantage with respect to the distribution of the securities of the mutual fund.

5. Subject to section 7, the principal distributor of a mutual fund must comply with the following rules:

1) all money received by the principal distributor for investment in, or redemption of, securities of the mutual fund, shall be accounted for separately, remitted to the mutual fund and shall not be commingled with his own assets;

2) the principal distributor shall not use such money to finance his own or any other operations;

3) the principal distributor may withdraw funds from the trust account for the purpose either of remitting to the mutual fund the net amount to be invested in securities of the mutual fund, remitting redemption proceeds to relevant subscribers or purchasers, or paying investors fees to which the principal distributor may be entitled;

4) unless the interest is paid to the subscribers or purchasers on a pro rata basis, interest earned in the trust account, net of applicable banking fees, shall be paid to the mutual fund no less frequently than monthly, and when the deposited funds are held in this account for more than one mutual fund, the interest shall be divided pro rated on cash flow; the principal distributor is under no circumstances entitled to the interest earned in the trust account;

5) all money received by the principal distributor for investment in the securities of the mutual fund shall be remitted to the mutual fund no later than the second business day following receipt of such money.

6. The principal distributor may offset and pay the balance in cash when he has commingled in the trust account the money received for investment purposes with the money received for redemption purposes.

7. The firm participating with the distributor of a mutual fund or the principal distributor of a mutual fund in the distribution of securities of a mutual fund must comply with the following rules:

1) all money received for the distribution of securities of a mutual fund, or redemption of, shall be accounted for separately, deposited in an interest-bearing trust account and shall not be commingled with its own assets;

2) the distributing firm shall not use such money to finance its own or any other operations;

3) the distributing firm may withdraw funds from the trust account for the purpose of either remitting to the

mutual fund or to the principal distributor the net amount to be invested in securities of the mutual fund or paying investors or service fees or other similar amounts to which the distributing firm or principal distributor may be entitled;

4) unless the interest is paid to subscribers or purchasers on a pro rata basis, interest earned in the trust account, net of applicable banking fees, shall be paid to the mutual fund no less frequently than monthly and when the deposited funds are held in this account for more than one mutual fund, the interest shall be divided pro rated on cash flow;

5) all money received by the distributing firm for investment in the securities of the mutual fund shall be remitted to the mutual fund or its principal distributor no later than on the settlement date.

DIVISION III

MAINTENANCE OF FINANCIAL RESOURCES

8. The firm must maintain a net free capital at least equal to the sum obtained by adding \$50,000 to the deductible applicable to the firm's liability insurance policy provided for in the second paragraph of section 29 of the Regulation respecting firms, independent representatives and independent partnership approved by Order in Council 832-99 dated July 7, 1999.

The firm carrying on activities in more than one Canadian province shall add to this amount, where appropriate, the deductible for the bond required by the laws of the other provinces to which it is also subject.

The net free capital shall be calculated as set out in Appendix I.

9. For the purpose of calculating the net free capital, the following conditions apply:

1) the firm excludes from the calculation of its net free capital any financial guarantee given by a person holding a major position in the meaning of the second subparagraph of section 228 of the Regulation respecting securities enacted by Order of Council No. 660-83 of March 30, 1983, unless if its repayment is subordinated to the repayment of other creditors;

2) the firm shall deduct from its net free capital any financial guarantee given by the firm to a person holding a major position.

10. The firm may borrow funds to be included in its net free capital provided that repayment of such funds is subordinated to the repayment of other creditors and the

loan agreement provides that any repayment of this loan by the firm to the lender is conditional that in any such repayment, the firm respects the conditions of section 8.

11. Within 30 days of the end of each two-month period, the firm must file with the Bureau des services financiers the bimonthly report on net free capital set out in Appendix I.

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

MICHEL NOËL DE TILLY,
Clerk of the Conseil exécutif

APPENDIX I
(ss. 8 and 11)

MONTHLY REPORT ON NET FREE CAPITAL

Note: This report is prepared on the accrual basis of accounting.

FIRM'S NAME: _____
Person to contact: _____ Telephone: _____
Title: _____
Current month: _____

	Current Month (\$)	Previous Month (\$)
1. NET FREE CAPITAL		
Quick assets (a)		
Cash	_____	_____
Securities owned and negotiable at 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 (5) standby subordinated loan from a Canadian chartered bank		_____	_____
EXCESS (DEFICIT) OF NET FREE CAPITAL	(3)-(4)+(5)	_____	_____

2. TRUST ACCOUNT

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 the financial services compensation fund of another Canadian province;
- 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 at any time including deposit certificates.
- Indicate 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 firm always has the net free capital provided for in section 8.

3148

Gouvernement du Québec

O.C. 1129-99, 29 September 1999

An Act respecting the Ministère de la Sécurité publique
(R.S.Q., c. M-19.3)

Signing of certain deeds, documents or writings

Signing of certain deeds, documents or writings of the Ministère de la Sécurité publique

WHEREAS under section 12 of the Act respecting the Ministère de la Sécurité publique (R.S.Q., c. M-19.3), the Government may determine the cases in which the signature of a document by a member of the staff of the department is binding on the Minister and may be attributed to him;

WHEREAS under section 14 of that Act, any document or copy of a document emanating from the department or forming part of its records, signed or certified by a person referred to in section 12, is authentic;

WHEREAS it is expedient that the Government determine the deeds, documents or writings which, when signed by members of the staff of the department, is binding on the Minister or may be attributed to him;

IT IS ORDERED, therefore, on the recommendation of the Minister of Public Security:

THAT the Terms and conditions respecting the signing of certain deeds, documents or writings of the Ministère de la Sécurité publique, attached to this Order in Council, be made;

THAT they come into force on the date of their publication in the *Gazette officielle du Québec*.

MICHEL NOËL DE TILLY,
Clerk of the Conseil exécutif

Terms and conditions respecting the signing of certain deeds, documents or writings of the Ministère de la Sécurité publique

An Act respecting the Ministère de la Sécurité publique
(R.S.Q., c. M-19.3, s. 12)

1. The members of the staff of the Ministère de la Sécurité publique who hold, on a permanent or interim basis, the positions listed below are authorized to sign alone and with the same authority as the Minister of Public Security the deeds, documents or other writings listed after their respective position, subject to the Financial Administration Act (R.S.Q., c. A-6).

2. An Associate Deputy Minister for his area of activity is authorized to sign, up to the amounts specified, if any:

(1) supply contracts under an open contract;

(2) promises and awarding of grants;

(3) up to \$500 000:

(a) supply contracts;

(b) professional and auxiliary services contracts;

(c) leasing contracts;

(d) urgent acquisitions of goods and services;

(4) up to \$25 000, contracts entered into with natural persons;

(5) up to \$25 000, operating contracts entered into with the Société immobilière du Québec.

3. Assistant Directors General, Regional Directors, wardens of houses of detention and directors are authorized to sign, each for the area of activity under his responsibility, up to the amounts specified, if any:

(1) supply contracts under an open contract;

(2) up to \$100 000, urgent acquisitions of goods and services;

(3) up to \$25 000:

(a) supply contracts;

(b) professional and auxiliary services contracts;