REPEALED ON SEPTEMBER 28, 2009

Note : Sections 4 and 6 of this Regulation, as they read on September 27, 2009, apply to mutual fund dealer representatives and scholarship plan dealer representatives registered in accordance with Title V of the Securities Act, until rules equivalent to those prescribed in the sections mentioned above are determined in their respect in a regulation made under section 331.1 of that Act. (Q.A. 2009, c. 25, a. 135)

UNOFFICIAL CONSOLIDATED VERSION : IN FORCE FROM JANUARY 1, 2005 TO SEPTEMBER 27, 2009 -
The following is a consolidation of Regulation. This latter came into effect, at first, on October 13, 1999. This document incorporates the amendments to the Regulation that came into effect January 1, 2005. This consolidation is provided for your convenience and should not be relied on as authoritative. The specific references are available at the end of this document.

REGULATION RESPECTING PRACTICE IN THE SECURITIES FIELD

(REPEALED)

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

Division 1
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 2
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 3
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 September 29, 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 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.

O.C. 1122-99, 1999-09-29, G.O. 1999-10-13

Decision 2004-PDG-0182 -- 2004-11-24
Bulletin de l'Autorité : 2004-12-17, Vol. 1, no. 46
O.C. 1131-2004, 2004-12-08, G.O. 2004-12-15

Amendment

Decision 2009-PDG-0124 -- 2009-09-04
Bulletin de l'Autorité : 2009-09-25, Vol. 6, no. 38
M.O. 2009-06, 2005-05-19, G.O. 2009-09-25

(Regulation Repealed)