

Your Securities Broker or Financial Adviser  
Choices for a Bright Future





# ADVISER

## Your Securities Broker or Financial Adviser Choices for a Bright Future



Choosing a securities dealer or adviser is an important first step toward successful investment planning. Having access to sound, objective financial advice will be key to your long-term financial success. With that in mind, you should take the time to choose your dealer or financial adviser just as carefully as you would a family doctor or a lawyer.

The Québec *Securities Act* and the *Act respecting the distribution of financial products and services* require that anyone trading securities or in the business of advising clients on securities in Québec be registered with (licensed by) the Commission des valeurs mobilières du Québec or the Bureau des services financiers, depending on the registration category, unless a registration exemption applies. This registration requirement also exists in the other provinces and territories. This regulatory system ensures that all registered securities dealers and financial advisers meet certain minimum standards. However, it does not mean that they are all equally skilled, that they provide the same services, or that they charge the same fees to their clients.

# SECURITIES

What types of securities dealers and advisers are there?

## *Securities dealers (stockbrokers)*

Dealers are firms that are registered with securities regulators to buy or sell securities on behalf of clients. This registration also allows them to provide advice to clients about the purchase or sale of securities. There are many different types of dealers<sup>1</sup> offering different products and services and specializing in different areas:

- Some dealers are large national firms, others are very small and operate in only one province or territory, or one city.
- Some dealers are registered to buy or sell a full range of securities, while others specialize in certain types of products such as mutual funds, scholarship plans, or investment contracts.
- All dealers are subject to regulation by provincial or territorial agencies, such as the Commission des valeurs mobilières du Québec or the Bureau des services financiers, for dealers registered in Québec. Some are also members of self-regulatory organizations (for example the stock exchanges and Investment Dealers Association).

- All dealers must participate in contingency funds such as the Canadian Investor Protection Fund (CIPF). These funds are not designed to cover all losses on investments but they provide reimbursement (within limits) for cash or securities lost in the event that a dealer becomes insolvent.
- Some dealers, those with unrestricted practices (full-service brokers), offer clients a full range of trading, research, management and advisory services, while others, called discount brokers, specialize in providing low-cost trade execution services for investors who are able to make their own investment decisions.

## *Securities advisers*

Advisers are firms that specialize in providing advice to clients about investing in securities, but do not offer the trade execution services that are provided by dealers. You would look to a registered adviser purely for investment advice or if you wanted someone to manage your investment portfolio on your behalf.

Advice can come in different formats: face to face, written (newsletters and advertisements), e-mail, telephone and Internet. Some securities advisers with unrestricted practices, called portfolio managers, are authorized to make discretionary trades on behalf of their clients (you give them authority to make investment decisions and to trade on your behalf). Advisers must be registered with the Commission des valeurs mobilières du Québec in this province, or with another provincial or territorial securities regulator in the other Canadian jurisdictions, and, like dealers, may offer different services depending on their category of registration.



<sup>1</sup> Consult the glossary at the end of this document for definitions.

## What about financial planners?

Financial planners are people who offer the public financial services such as personal budgeting, cash and debt management, retirement planning and tax planning. Québec is for now the only province where financial planners must hold a recognized diploma<sup>2</sup> although a number of other Canadian jurisdictions are presently considering this issue. In Québec, financial planning falls under the jurisdiction of the Bureau des services financiers, in accordance with the *Act respecting the distribution of financial products and services*.

If, however, a financial planner also wants to trade in securities or advise clients on securities, they must become registered with the Commission des valeurs mobilières du Québec, in accordance with the *Securities Act*.

## Selecting your securities dealer or financial adviser

Investing your life savings involves a great deal of trust — trust in the management of the companies you invest in, and trust in the people who advise you and handle your investments. However, trust is not enough and it should never take the place of careful research and healthy skepticism. Don't take your choice of dealer or financial adviser lightly.

### *How do I start?*

When you start your search for a dealer or adviser, remember that you want to have confidence in and be comfortable with both the firm and the individual representative

who will service your account. Find out if the firm focuses on certain sectors of the market or on certain types of securities. Make sure the firm's style and the individual representative's style match your own.

Decide what kind of investment services you need. Are you an experienced investor who plans to do your own investment research and make your own investment decisions? If so, you may want to find a dealer who will simply execute trades for you quickly and at the lowest cost. A discount brokerage firm might be right for you.

Are you looking for someone who can provide investment advice, make recommendations on specific securities and also execute the trades for you? If so, you may want to look for a suitable full-service dealer or you may want to find an independent investment adviser to provide the advice you need and a discount broker to execute the trades on your instructions.

Are you interested only in mutual funds? If so, you will have a choice of many mutual fund dealers as well as the full-service dealers in your area.

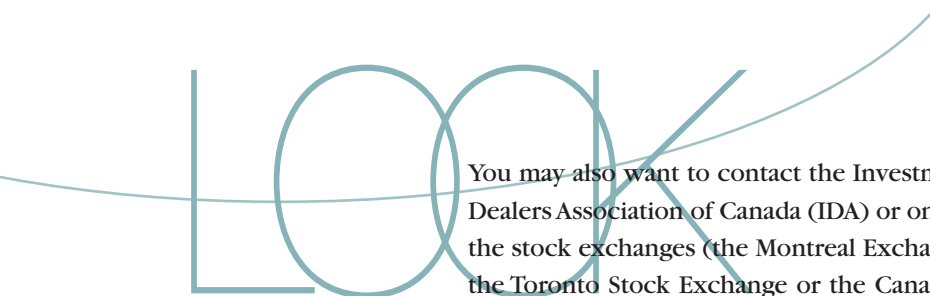
### *Where do I look?*

Word of mouth can always be helpful in identifying capable financial professionals. Ask for recommendations from your accountant, your lawyer, your family, or friends whose judgment you trust.

Your local Yellow Pages™ can provide you with the names of many or all of the dealers and advisers in your area under headings such as “brokers - stocks and bonds”, “securities dealers”, “financial planning”, “investment dealers”.

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<sup>2</sup> In Québec, financial planners must hold a diploma from the Institut québécois de planification financière.



You may also want to contact the Investment Dealers Association of Canada (IDA) or one of the stock exchanges (the Montreal Exchange, the Toronto Stock Exchange or the Canadian Venture Exchange) to obtain a list of the member firms that are registered in your area. In Québec, you may also contact the Commission des valeurs mobilières du Québec or the Bureau des services financiers, depending on the registration category, to obtain a list of the registered dealers and advisers in your area.

### *What questions should I ask?*

Once you have identified a list of firms that you might want to work with, you can obtain more information to help you make your choice. A good first step is to contact the firm's customer service department. Some of the questions you might ask are:

- Is the firm in the market for new clients such as you, with your expected account size and your general investment objectives?
  - Does the firm and its staff specialize in a particular type of investment product or a particular clientele? (For example, does it focus on speculative securities, mutual funds, blue chip stocks? Does it cater to conservative retail investors, high net worth clients, institutions or speculators?)
  - Does the firm and its staff have any special expertise in the types of investments that might be of interest to you?
  - What products is the firm and individual registered to sell or advise on? How long has the firm been registered? Does it operate in other provinces as well? How many employees does it have? How many clients?
  - What services does it provide to clients like you? For example, does the dealer provide trade execution only, or does it provide advice, research and trading?
- Does the firm have an internal research department that provides research reports to clients? Does it offer any educational seminars for its clients?
  - How does the firm charge for its services? What commission rates or brokerage fees would a client like you expect to pay?
  - If you opened an account, what representative(s) might be available to you? What are their experience and qualifications?
  - Has the firm been subject to any disciplinary proceedings in the past few years? What about the individuals you might be dealing with?
  - Is the firm a member of a contingency fund designed to protect clients in the event of its insolvency? If so, what coverage does the fund provide?

Many firms have written materials about themselves and their services that will answer many of your questions.

If you are like most clients, you will find that you deal with, and rely heavily on, a single individual within the firm. For that reason, it is very important that you know as much as you can about that person's skills, knowledge and expertise, his approach to investing and his ability to provide the personal service you expect. You want to find someone who deserves your confidence and your trust. If possible, arrange to meet with the person and ask about his educational qualifications, experience, investment philosophy, and specialties. You may also want to ask for references, the size of his client list and the amount of an average client portfolio, and about his disciplinary history. If the person never has time to meet with you, is unwilling to discuss his qualifications and history, or is not keenly interested in your financial goals and objectives, look elsewhere.

You can always contact the securities regulator in your province or territory for additional information. Depending on the jurisdiction, this can include the firm's or individual's category of registration, how long they have been registered, and whether or not they have a disciplinary history with the securities regulator. In Québec, such information may be obtained from the Commission des valeurs mobilières du Québec or from the Bureau des services financiers, depending on the registration category.

Since many dealers and advisers are members of a stock exchange or the IDA, you should consider checking with these sources for more information about the firm's history and current standing.



INVESTING



# PURCHASER

## Opening an account

After you have chosen a firm and an individual within the firm, you and your new dealer or adviser will complete a number of forms to open your account. Some of these forms (for example, the “cash” or “margin account agreements”) describe the nature of your account(s) and the legal rights and remedies available to both you and the firm in case of a dispute. These forms are often dry reading, full of legal language. Even so, you should read and understand the forms **before** you sign. If you don’t understand part of the form, ask your representative for an explanation, line by line if necessary.

The cardinal rule for every dealer and adviser is that they must *know their client well*. In other words, they must learn the essential facts relative to every client and must *determine the general investment needs and objectives of the client*. To help them do this, firms must complete a detailed New Client Account Form (NCAF) that contains key personal and financial information about the client. While the detailed questions may seem somewhat invasive, the information you provide in the NCAF is necessary if the dealer or adviser is to provide effective service and prudent advice.

The NCAF will generally include your name, address, employment information, credit references, income, net worth, investment experience, attitude toward risk and investment objectives. Most NCAFs also ask whether anyone else has any interest in or authority over your account, and whether you are an insider or control person of any public companies. They may also include information relating to the transfer and registration of securities held in your account.

All firms use NCAFs that require the signature of the client. **Before** you sign the NCAF, make sure that everything in it is correct. Errors in the form may lead to inappropriate advice



and may erode the legal protections you are entitled to if something goes wrong. Get a copy of the NCAF and keep it with your account records. Make sure that you contact the firm (preferably in writing) to have the form updated whenever the information in it changes. This is particularly important with key information such as your address, your personal financial circumstances and your investment objectives.

In most cases, you will also be asked to complete a shareholder communication form in which you will indicate the amount of information, such as annual reports, financial statements, proxy circulars and notices of shareholder meetings, that you wish to receive from the companies in which you invest. *The form will also ask whether or not you consent to the disclosure of your name and securities holdings to those companies.*

### *What are my responsibilities as a client?*

No matter how well intentioned the dealer or adviser, no one will ever care as much about your financial health as you do. As an investor, you must be prepared:

- to research and monitor your investments, ask questions of your dealer or adviser, and educate yourself about investing.
- to communicate clearly and honestly with your dealer or adviser so they understand your financial circumstances, investment objectives and experience.
- to be realistic in your expectations of profit.
- to appreciate that investing can involve risk.

- to read any offering documents that are provided to you in connection with an investment (such as a prospectus or offering memorandum).
- to read and retain your confirmation slips and statements of account, as well as notes of conversations between you and your dealer or adviser. This will enable you to alert your dealer or adviser immediately if there are errors in or problems with your account.
- to give instructions to your dealer or financial adviser if you leave the province for an extended period.
- to ask questions about investment matters that you do not understand.

### *What should I expect from my dealer or adviser?*

You should expect your dealer or adviser:

- to be competent and ethical, and to act in your best interest at all times.
- to deal with you fairly, honestly, and in good faith.
- to find out your general investment needs and objectives.
- to make recommendations that are consistent with those investment needs and objectives.
- to disclose the risks associated with their recommendations.
- to disclose any conflicts of interest that they may have concerning their recommendations to you.

INFORMATION

# REGULATORS

- to provide you with prompt written confirmation of trades made on your behalf with details of the value of the transactions as well as the commissions or fees charged.
- to provide monthly or quarterly<sup>3</sup> statements of account detailing the transactions in your account, the fees charged and the securities held on your behalf.
- to obtain your express authorization in advance of every trade made on your behalf (unless you have provided a proper power of attorney to a dealer<sup>4</sup> or a third party).
- to be aware of changes in your financial situation or investment objectives unless you tell them.
- to act on vague or general instructions to buy or sell securities “when the time is right”. Unless you have vested proper written trading authority in a third party or your dealer or adviser, registrants can only act on specific instructions from you.
- to charge all clients the same commissions. Commissions are negotiable and larger clients may be able to negotiate lower commission rates.

Do not expect them:

- to be successful in every investment recommendation they make. No one can predict future market performance with certainty.
- to know what investment opportunities might be suitable for you unless you discuss your financial position, your objectives and your risk tolerance with them in detail.



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<sup>3</sup>Dealers must send their clients a statement of account at least quarterly, where there is a cash balance or securities balance in the account. Dealers must also send their clients a statement at the end of any month during which the client transacted in the account or the dealer made entries in the account which changed the balance, unless such entries refer to interest or dividends.

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<sup>4</sup>A dealer with a restricted practice is not authorized to accept a power of attorney.

## *What can I expect from the securities regulators?*

The Commission des valeurs mobilières du Québec, as well as the other provincial and territorial securities regulators, and the self-regulatory organizations play a role in registering firms and individuals in the securities business. They can be important sources of information about registrants and about the securities in which you might invest. Depending on the jurisdiction, the securities regulator may be able to give you information that includes:

- whether or not a firm or individual is registered in your province or territory.
- a firm's or individual's category of registration.
- whether or not they have been subject to disciplinary proceedings.

In Québec, such information is available at the Commission des valeurs mobilières du Québec or the Bureau des services financiers, depending on the registration category.

You can also expect the securities regulators to help you understand your rights as an investor, and the law and the rules that govern the conduct of people under their jurisdiction.

Finally, you can expect the securities regulators to look into legitimate complaints about the conduct of a dealer or adviser (or of anyone engaged in market activities) under their jurisdiction. Keep in mind that they are authorized to discipline those who engage in misconduct, but they do not have the power to order the payment of financial compensation to investors. That is the exclusive territory of the courts.

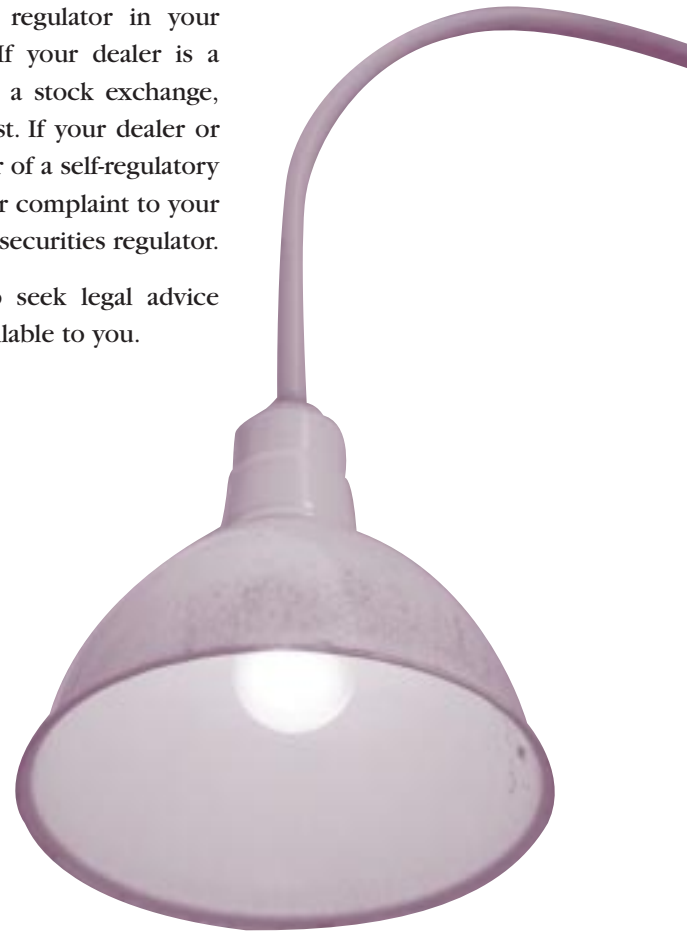
*What should I do if a problem arises with my dealer or financial adviser?*

In some cases, the problem may be nothing more than an administrative error. In other cases, the problem can be much more serious.

Here are some tips to help you deal with problems quickly and effectively:

- Make written notes of your conversations with the representative of your dealer or financial adviser, particularly when you give instructions to buy or sell a security.
- Retain copies of all the forms, confirmation slips, account statements and correspondence concerning your investments.
- If you identify a problem, notify your dealer or adviser immediately. Follow up in writing if possible. Do not wait to see if the error works out in your favour.

- If the problem is not resolved promptly, contact the firm's manager or compliance officer, preferably in writing.
- If the problem still cannot be resolved, or if you think there has been misconduct, contact the securities regulator in your province or territory. If your dealer is a member of the IDA or a stock exchange, contact that agency first. If your dealer or adviser is not a member of a self-regulatory organization, direct your complaint to your provincial or territorial securities regulator.
- You may also want to seek legal advice about the remedies available to you.



## Glossary

**Registration categories:** Firms registering as a securities dealer or adviser request registration under one of the following categories:

### *Dealer*

#### **Unrestricted practice**

A firm wishing to conduct business as a dealer requests unrestricted practice registration unless it wants to restrict its activities to the types of investments or transactions that fall under restricted practice registration.

#### **Restricted practice**

- **Mutual fund dealer:** Limits its activities to trading mutual fund shares.
- **Investment contract dealer:** Limits its activities to trading investment contracts (for example, an equity interest in scientific research projects, or real estate projects).
- **Scholarship plan dealer:** Limits its activities to trading scholarship plan shares.
- **Discount broker:** Limits its activities to acting as an intermediary in trading securities without providing advice on the purchase or sale of securities.

The dealer's representative is the individual who exercises one of the above-mentioned activities, and he must always introduce himself as a representative and mention the category he belongs to.

### *Securities adviser*

#### **Unrestricted practice**

#### **Restricted practice**

- For those firms that do not intend to provide portfolio management services, Stock recommendations letters are an example of a service provided by a restricted practice adviser.

**Insider:** An insider is a person who owns more than 10% of the voting shares of an issuer. All issuers, and directors and senior officers of a corporation are deemed to be insiders.

**Offering memorandum:** An information document drafted by an issuer, for the same purposes as a prospectus (see definition below), but which contains fewer sections because the issuer obtained certain exemptions from the securities regulator.

**Prospectus:** A prospectus is a disclosure document prepared by an issuer — a company that wants to distribute securities to the public — which is distributed to potential investors. The prospectus must contain very specific information about the company issuing the securities. It describes the company and its business sector and contains the company's articles of incorporation, its history, a list of its directors, its financial statements, a description of the issue and the risk factors associated with the investment. Before it can be distributed to investors, the prospectus must be issued a receipt by the Commission des valeurs mobilières du Québec indicating that it complies with the requirements of the *Securities Act*.

**Public company:** A company that does not fulfill the criteria of a private company, whose articles of incorporation (charter) limit the number of shareholders to 50 (with the exception of anyone salaried by the company or a subsidiary), prohibit the distribution of securities to the public and restrict the free transfer of the company's shares.

**Securities:** Investment products such as stocks, bonds, mutual fund units, etc.



COMPANY

This brochure was produced courtesy of the Canadian Securities Administrators.

## QUÉBEC

### Commission des valeurs mobilières du Québec

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Montréal (Québec) H4Z 1G3  
Telephone: (514) 940-2150  
1-800-361-5072  
(elsewhere in Quebec)  
Fax: (514) 873-3090  
Web Site: [www.cvmq.com](http://www.cvmq.com)  
E-mail: [courrier@cvmq.com](mailto:courrier@cvmq.com)

## ALBERTA

### Alberta Securities Commission

300-5<sup>th</sup> Avenue SW, Suite 410  
Calgary, AB T2P 3C4  
Telephone: (403) 297-6454  
Fax: (403) 297-6156

20<sup>th</sup> Floor, 10015 Jasper Avenue  
Edmonton, AB T5J 3Z5  
Telephone: (403) 427-5201  
Fax: (403) 427-0777

## BRITISH COLUMBIA

### British Columbia Securities Commission

865 Hornby Street, Suite 200  
Vancouver, BC V6Z 2H4  
Telephone: (604) 899-6500  
Fax: (604) 899-6506  
1-800-373-6393  
(elsewhere in B.C.)  
Web Site: [www.bcsc.bc.ca](http://www.bcsc.bc.ca)

## MANITOBA

### Manitoba Securities Commission

405 Broadway Avenue, Suite 1130  
Winnipeg, MB R3C 3L6  
Telephone: (204) 945-2548  
Fax: (204) 945-0330  
Web Site: [securities@cca.gov.mb.ca](mailto:securities@cca.gov.mb.ca)

## NEW BRUNSWICK

### Office of the Administrator of Securities

133 William Street, Suite 606  
P.O. Box 5001  
Saint-John, NB E2L 4Y9  
Telephone: (506) 658-3060  
Fax: (506) 658-3059

## NEWFOUNDLAND

### Securities Division

#### Department of Government Services & Lands

#### Government of Newfoundland and Labrador

2<sup>nd</sup> Floor, West Block, Confederation Building  
P.O. Box 8700  
St. John's, NF A1B 4J6  
Telephone: (709) 729-4189  
Fax: (709) 729-6187  
Web Site: [www.gov.nf.ca/](http://www.gov.nf.ca/)

## NORTHWEST TERRITORIES

### Registrar of Securities Department of Justice Government of Northwest Territories

P.O. Box 1320  
Yellowknife, NT X1A 2L9  
Telephone: (867) 873-7490  
Fax: (867) 873-0243

## NOVA SCOTIA

### Nova Scotia Securities Commission

Joseph Howe Building  
1690 Hollis Street, 2<sup>nd</sup> Floor  
P.O. Box 458  
Halifax, NS B3J 2P8  
Telephone: (902) 424-7768  
Fax: (902) 424-4625  
Web Site: [www.gov.ns.ca](http://www.gov.ns.ca)

## NUNAVUT

### Nunavut Legal Registries Government of Nunavut

Bag 9500  
Yellowknife, NT X1A 2R3  
Telephone: (867) 920-6354  
Fax: (867) 873-0586

## ONTARIO

### Ontario Securities Commission

20 Queen Street West, Suite 800  
P.O. Box 55  
Toronto, ON M5H 3S8  
Information: (416) 593-8314  
Publications: (416) 593-8117  
Fax: (416) 593-8122  
Web Site: [www.osc.gov.on.ca](http://www.osc.gov.on.ca)

## PRINCE EDWARD ISLAND

### Department of Community Affairs & Attorney General

95 Rochford Street, 4 Shaw North  
P.O. Box 2000  
Charlottetown, PE C1A 7N8  
Telephone: (902) 368-4551  
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Web Site: [www.gov.pe.ca/](http://www.gov.pe.ca/)

## SASKATCHEWAN

### Saskatchewan Securities Commission

1920 Broad Street, Suite 800  
Regina, SK S4P 3V7  
Telephone: (306) 787-5645  
Fax: (306) 787-5899

## YUKON

### Registrar of Securities Government of Yukon

2134 2<sup>nd</sup> Avenue  
P.O. Box 2703  
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