

**STAFF NOTICE 33-706**  
**PROCESSING OF EQUITY AND FIXED INCOME TRADES**  
**BY FINANCIAL INSTITUTIONS AND MUTUAL FUND DEALERS**

Staff of the Saskatchewan Securities Commission has become aware that certain financial institutions are processing equity and fixed income trades for clients of mutual fund dealers purporting to use the exemption under clause 39(1)(k) of *The Securities Act, 1988* (the “Act”) which provides:

**39(1)** Subject to the regulations, registration is not required with respect to the following trades in securities:

(k) the execution of an unsolicited order to purchase or sell through a registered dealer by a credit union, a bank or a trust corporation licensed pursuant to *The Trust and Loan Corporations Act* as agent for a person or company and the trade by that person or company in placing the unsolicited order with the bank or trust company, if the credit union, bank or trust company does not promote or market this service.

Some financial institutions have pre-printed equity and fixed income trade tickets which they have distributed to mutual fund dealers for their clients to use. The tickets are pre-printed to indicate that the trade is unsolicited. In some cases, the representative of the mutual fund dealer signs the trade ticket using a power of attorney granted by the client. Some mutual fund dealers have advertised to both their clients and their registered representatives, that they are able to process trades through a financial institution.

Staff is of the view that these trades are not unsolicited since there is a high volume of such trades, the practice has been advertised and pre-printed, mass produced trade tickets are being provided to mutual fund dealers and their clients. This means that the financial institution is carrying on improper trading activities outside the terms of the exemption in clause 39(1)(k). Financial institutions are using these trade exemptions to allow the mutual fund dealer to carry on an extensive business in processing client trades that a mutual fund dealer is not registered to do. Registered representatives of the mutual fund dealers are not registered or proficient to facilitate trades in equities or debt securities. In staff's view, the exemption in clause 39(1)(k) should only be used for exceptional and one-time trades, and should not be used on a systematic basis by either a client or a financial institution.

Many, if not all, of these “unsolicited” equity and fixed income trades take place in the self-directed RRSP accounts offered by mutual fund dealers. Mutual fund dealers often act as administrators for these self-directed RRSP accounts on behalf of the financial institution. As administrator under one of these bare trustee arrangements, the mutual fund dealer is responsible for keeping all records and acting as custodian of all assets, other than cash, held in the RRSP accounts. Staff is of the view that, if these accounts hold equity and fixed income securities, the mutual fund dealer is carrying on activities outside the terms of its registration.

In staff's view, financial institutions and mutual fund dealers who are carrying on these practices should immediately stop such action, and remedy any non-compliance with the Act.

Mutual fund dealers who hold client accounts containing equity and fixed income securities currently on its books and records could give clients the option of:

- (1) transferring their accounts to an appropriately registered dealer;
- (2) splitting out the equity and fixed income portion of the account and transferring that portion to an appropriately registered dealer; or
- (3) opening a delivery-against-payment account at a securities or investment dealer for each client to facilitate equity and fixed income transactions and transferring all positions in the account to the trust company who will act as custodian of all assets in the account and will provide statements and confirmations to the client. Clients would have to direct all equity and fixed income trades directly to the securities or investment dealer.

February 7, 2000

Contact:

Deputy Director, Registration  
(306) 787-5876