

Saskatchewan Local Policy Statement 3.6

Securities Dealers - Participation in the Canadian Investors Protection Fund

The purpose of this policy is to set out the restrictions that will apply to the registration of securities dealers who do not participate in the Canadian Investor Protection Fund.

The Canadian Investor Protection Fund (the "Fund") is a trust established to protect customers in the event of the insolvency of a firm which is a member of any of the sponsoring self-regulatory organizations: the Toronto Stock Exchange, the Montreal Exchange, the Vancouver Stock Exchange, the Alberta Stock Exchange and the Investment Dealers Association of Canada ("the SROs"). The Fund is financed by payments of member firms based on regular annual and periodic special assessments of those firms. When an investor becomes a customer of a member firm, that customer's accounts are covered by the Fund. The Fund covers customers' losses of securities and cash balances, within prescribed limits, that result from the insolvency of a member firm.

Securities dealers are one of three categories of dealers specified in section 10 of *The Securities Regulations* (the "Regulations") who trade in securities in the capacity of an agent or principal and are unrestricted as to the business they may carry on. Those three categories are:

1. Brokers, who are members of a stock exchange;
2. Investment dealers, who are members of the Saskatchewan District of the Investment Dealers Association of Canada; and
3. Securities dealers who are not required to be members of an SRO.

Because they are not members of an SRO, securities dealers do not participate in the Fund and their customers are not entitled to the protection offered by the Fund. It is recognized that securities dealers may be carrying on business that is the same or similar to that being carried on by brokers and investment dealers. Securities dealers are subject to the same risks as these dealers, yet their clients are not subject to the same protection.

Over the past several years, a regulatory working group of the Canadian Securities Administrators has reviewed the capital, audit and financial reporting requirements for registrants with a view to determining whether they are adequate in the present securities industry and market environment. The working group produced a final report which contained 36 recommendations for change. The first recommendation was that SRO membership should be required of all registrants who have access to client funds or securities.

Before the recommendations of the working group can be implemented, the proposed changes must be discussed with those affected and then finalized. Amendments to legislation will also be required to implement many of the changes. All of this will take some time.

In the meantime, steps must be taken to bridge the regulatory gap that appears to exist with respect to securities dealers. Therefore, effective the date of this policy, the following restrictions will apply to the registration of a securities dealer which does not participate in the Fund:

A securities dealer shall:

1. *Not trade in the secondary market as principal or agent;*
2. *Not maintain margin accounts;*
3. *Not trade in options or commodity futures contracts;*
4. *Not hold clients' free-credit balances for longer than three business days;*
5. *Segregate clients' securities and not hold such securities for longer than three business days;*
6. *Deposit subscriptions or prepayments held pending investment in client's trust accounts or a clients' trust account. Such client funds shall:*
 - (a) *be properly identified immediately upon receipt by the dealer;*
 - (b) *kept segregated in a trust account or trust accounts; and*
 - (c) *not be co-mingled with the assets of the securities dealer*

and the interest which accrues on such trust account or trust accounts shall be credited to the client or clients on whose behalf the funds are held.

While these restrictions do not impose an absolute requirement to belong to an SRO and participate in the Fund as recommended by the working group, they do restrict the activities which may lead to a loss of clients' funds and securities.

Adopted by the Commission

effective January 29, 1991.

“Marcel de la Gorgendiere”
Marcel de la Gorgendière, Q.C.
Chairman