

Draft Regulation

Securities Act
(R.S.Q. c. V-1.1, s. 331.1, pars. (11) and (34), and s. 331.2)

Regulation to amend Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations

Notice is hereby given by the *Autorité des marchés financiers* (the "Authority") that, in accordance with section 331.2 of the *Securities Act*, R.S.Q. c. V-1.1, the following Regulation, the text of which is published hereunder, may be made by the Authority and subsequently submitted to the Minister of Finance for approval, with or without amendment, after 66 days have elapsed since its publication in the Bulletin of the Authority:

- *Regulation to amend Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations.*

Draft amendments to *Policy Statement to Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* are also published hereunder.

Request for comment

Comments regarding the above may be made in writing before **July 18, 2011**, to the following:

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Further information

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May 13, 2011

Notice of and request for comment

Draft Regulation to amend Regulation 31-103 respecting Registration Requirements and Exemptions and draft amendments to Policy Statement to Regulation 31-103 respecting Requirements and Exemptions

Exemptions from certain requirements for SRO Members

Introduction

As contemplated in the Notice published on April 15, 2011, the Canadian Securities Administrators (the CSA or we) are seeking comments on draft *Regulation to amend Regulation 31-103 respecting Registration Requirements and Exemptions* (the Regulation) and draft amendments to *Policy Statement to Regulation 31-103 respecting Registration Requirements and Exemptions* (the Policy Statement) related to the exemptions for SRO members and their dealing representatives in Parts 3 and 9 of the Regulation.

The comment period will end on July 18, 2011.

Summary and purpose of the proposed amendments to the Regulation and the Policy Statement

We are proposing amendments to sections 3.16, 9.3 and 9.4 of the Regulation in order to add, as a condition to the exemptions provided in these sections, that the registered individual or the registered investment dealer firm comply with the specified corresponding provision of the Investment Industry Regulatory Organization of Canada (IIROC) or, in the case of a mutual fund dealer firm, the Mutual Fund Dealers Association of Canada (MFDA). These proposed amendments are published with this Notice. They are further to those in the amended Regulation published on April 15, 2011, which are scheduled to come into force on July 11, 2011, subject to all requisite approvals, including ministerial approvals¹.

We are also proposing amendments to the Policy Statement to provide guidance on our expectations with respect to compliance with the SRO rules and policies. These proposed amendments are also published with this Notice. They are further to those in the amended Policy Statement published on April 15, 2011, which are scheduled to come into force on July 11, 2011.

The purpose of these amendments is to ensure that all registrants are subject to the same enforcement regime in respect of a breach of the Regulation.

If necessary, we will update the references to IIROC and MFDA provisions in the appendices to the Regulation so that at the time these amendments come into force, we refer to the most current corresponding IIROC and MFDA provisions.

Regulation-making authority

In those jurisdictions in which the proposed amendments are to be adopted as regulations, the securities legislation provides the securities regulatory authority with regulation-making authority in respect of the subject matter of the proposed amendments.

¹ Pursuant to the amendments published on April 15, 2011, the title to the Regulation is being changed from “*Regulation 31-103 respecting Registration Requirements and Exemptions*” to “*Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations*”. As these amendments will not be in force before July 11, 2011, the title currently in effect is used in this Notice.

Alternatives considered

Due to the nature of the proposed amendments, no other alternatives were considered appropriate.

Unpublished materials

In developing the proposed amendments, we have not relied on any significant unpublished study, report or other written materials.

Anticipated costs and benefits

The proposed amendments will make the Regulation, the Policy Statement and the ongoing requirements more clear and specific while at the same time ensuring that all registrants will be subject to the same enforcement provisions for a breach of securities law, to the benefit of registrants and the investors they serve.

Request for comments

We would like your input on the Regulation and the Policy Statement. We need to continue our open dialogue with all stakeholders if we are to achieve our regulatory objectives while balancing the interests of investors and registrants. All comments will be posted on the Ontario Securities Commission website at www.osc.gov.on.ca and on the Autorité des marchés financiers website at www.lautorite.qc.ca.

All comments will be made publicly available.

<p>Please note that we cannot keep submissions confidential because securities legislation in certain provinces requires publication of a summary of the written comments received during the comment period. In this context, you should be aware that some information which is personal to you, such as your e-mail and residential or business address, may appear in the websites. It is important that you state on whose behalf you are making the submission.</p>
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Thank you in advance for your comments.

Where to send your comments

Please address your comments to all CSA members, as follows:

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Please send your comments only to the addresses below. Your comments will be forwarded to the remaining CSA member jurisdictions.

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Questions

Please refer your questions to any of the following CSA staff:

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May 13, 2011

**REGULATION TO AMEND REGULATION 31-103 RESPECTING
REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING
REGISTRANT OBLIGATIONS**

Securities Act

(R.S.Q., c. V-1.1, s. 331.1, par. (11) and (34))

1. Section 1.1 of Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations is amended:

(1) by inserting, after the definition of the expression “IIROC”, the following:

““IIROC Provision” means a by-law, rule, regulation or policy of IIROC named in Appendix G, as amended from time to time;”;

(2) by inserting, after the definition of the expression “MFDA”, the following:

““MFDA Provision” means a by-law, rule, regulation or policy of the MFDA named in Appendix H, as amended from time to time;”.

2. Section 3.16 of the Regulation is amended:

(1) by inserting, after paragraph (1), the following:

“(1.1) Subsection (1) only applies to a registered individual who is a dealing representative of a member of IIROC in respect of a requirement specified in any of paragraphs (1)(a) to (c) if the registered individual complies with the corresponding IIROC Provisions that are in effect.”;

(2) by inserting, after paragraph (2), the following:

“(2.1) Subsection (2) only applies to a registered individual who is a dealing representative of a member of the MFDA in respect of a requirement specified in paragraphs (2)(a) or (b) if the registered individual complies with the corresponding MFDA Provisions that are in effect.”.

3. Section 9.3 of the Regulation is amended:

(1) by inserting, after paragraph (1), the following:

“(1.1) Subsection (1) only applies to a registered firm in respect of a requirement specified in any of paragraphs (1)(a) to (q) if the registered firm complies with the corresponding IIROC Provisions that are in effect.”;

(2) by inserting, after paragraph (2), the following:

“(2.1) Subsection (2) only applies to a registered firm in respect of a requirement specified in any of paragraphs (2)(a) to (m) if the registered firm complies with the corresponding IIROC Provisions that are in effect.”.

4. Section 9.4 of the Regulation is amended:

(1) by inserting, after paragraph (1), the following:

“(1.1) Subsection (1) only applies to a registered firm in respect of a requirement specified in any of paragraphs (1)(a) to (q) if the registered firm complies with the corresponding MFDA Provisions that are in effect.”;

(2) by inserting, after paragraph (2), the following:

“(2.1) Subsection (2) only applies to a registered firm in respect of a requirement specified in any of paragraphs (2)(a) to (k) if the registered firm complies with the corresponding MFDA Provisions that are in effect.”.

5. The Regulation is amended by adding, after Appendix F, the following:

**“APPENDIX G – EXEMPTIONS FROM CERTAIN REQUIREMENTS FOR IIROC MEMBERS
(Section 9.3)**

Regulation 31-103 Provision	IIROC Provision
section 12.1 [<i>capital requirements</i>]	1. Dealer Member Rule 17.1; and 2. Form 1 <i>Joint Regulatory Financial Questionnaire and Report</i> - Part I, Statement B, “Notes and Instructions”
section 12.2 [<i>notifying the regulator of a subordination agreement</i>]	1. Dealer Member Rule 5.2; and 2. Dealer Member Rule 5.2A
section 12.3 [<i>insurance – dealer</i>]	1. Dealer Member Rule 400.2 [<i>Financial Institution Bond</i>]; 2. Dealer Member Rule 400.4 [<i>Amounts Required</i>]; and 3. Dealer Member Rule 400.5 [<i>Provisos with respect to Dealer Member Rules 400.2, 400.3 and 400.4</i>]
section 12.6 [<i>global bonding or insurance</i>]	1. Dealer Member Rule 400.7 [<i>Global Financial Institution Bonds</i>]
section 12.7 [<i>notifying the regulator of a change, claim or cancellation</i>]	1. Dealer Member Rule 17.6; 2. Dealer Member Rule 400.3 [<i>Notice of Termination</i>]; and 3. Dealer Member Rule 400.3B [<i>Termination or Cancellation</i>]
section 12.10 [<i>annual financial statements</i>]	1. Dealer Member Rule 16.2 [<i>Dealer Member Filing Requirements</i>]; and 2. Form 1 <i>Joint Regulatory Financial Questionnaire and Report</i>
section 12.11 [<i>interim financial information</i>]	1. Dealer Member Rule 16.2 [<i>Dealer Member Filing Requirements</i>]; and 2. Form 1 <i>Joint Regulatory Financial Questionnaire and Report</i>
section 12.12 [<i>delivering financial information – dealer</i>]	1. Dealer Member Rule 16.2 [<i>Dealer Member Filing Requirements</i>]
subsection 13.2(3) [<i>know your client</i>]	1. Dealer Member Rule 1300.1(a)-(n) [<i>Identity and Creditworthiness</i>]; 2. Dealer Member Rule 1300.2; 3. Dealer Member Rule 2500, Section II [<i>Opening New Accounts</i>]; and 4. Form 2 <i>New Client Application Form</i>
section 13.3 [<i>suitability</i>]	1. Dealer Member Rule 1300.1(o) [<i>Business Conduct</i>]; 2. Dealer Member Rule 1300.1(p) [<i>Suitability Generally</i>]; 3. Dealer Member Rule 1300.1(q) [<i>Suitability Determination Required When Recommendation Provided</i>]; 4. Dealer Member Rule 1300.1(r) and Dealer Member Rule 1300.1(s) [<i>Suitability Determination Not Required</i>]; 5. Dealer Member Rule 1300.1(t) [<i>Corporation Approval</i>]; 6. Dealer Member Rule 2700, Section I [<i>Customer Suitability</i>]; and 7. Dealer Member Rule 3200 [<i>Minimum Requirements</i>]

	<i>for Dealer Members Seeking Approval Under Rule 1300.1(t) for Suitability Relief for Trades not Recommended by the Member]</i>
section 13.12 <i>[restriction on lending to clients]</i>	1. Dealer Member Rule 100 <i>[Margin Requirements]</i>
section 13.13 <i>[disclosure when recommending the use of borrowed money]</i>	1. Dealer Member Rule 29.26
section 13.15 <i>[handling complaints]</i>	1. Dealer Member Rule 2500B <i>[Client Complaint Handling]</i> ; and 2. Dealer Member Rule 2500, Section VIII <i>[Client Complaints]</i>
subsection 14.2(2) <i>[relationship disclosure information]</i>	1. Dealer Member Rules of IIROC that set out the requirements for relationship disclosure information similar to those contained in IIROC's Client Relationship Model proposal, published for comment on January 7, 2011; <div style="border: 1px solid black; padding: 5px; margin: 10px 0;">At the time of publication, IIROC had not assigned a number to the relationship disclosure dealer member rule in its Client Relationship Model proposal. We will refer to the dealer member rule number when IIROC has assigned one.</div> 2. Dealer Member Rule 29.8; 3. Dealer Member Rule 200.1(c); 4. Dealer Member Rule 200.1(h); 5. Dealer Member Rule 1300.1(p) <i>[Suitability Generally]</i> ; 6. Dealer Member Rule 1300.1(q) <i>[Suitability Determination Required When Recommendation Provided]</i> ; 7. Dealer Member Rule 1300.2; and 8. Dealer Member Rule 2500B, Part 4 <i>[Complaint procedures / standards]</i>
section 14.6 <i>[holding client assets in trust]</i>	1. Dealer Member Rule 17.3
section 14.8 <i>[securities subject to a safekeeping agreement]</i>	1. Dealer Member Rule 17.2A 2. Dealer Member Rule 2600 – Internal Control Policy Statement 5 <i>[Safekeeping of Clients' Securities]</i>
section 14.9 <i>[securities not subject to a safekeeping agreement]</i>	1. Dealer Member Rule 17.3; 2. Dealer Member Rule 17.3A; and 3. Dealer Member Rule 200.1(c)
section 14.12 <i>[content and delivery of trade confirmation]</i>	1. Dealer Member Rule 200.1(h)

**APPENDIX H – EXEMPTIONS FROM CERTAIN REQUIREMENTS FOR MFDA MEMBERS
(Section 9.4)**

Regulation 31-103 Provision	MFDA Provision
section 12.1 <i>[capital requirements]</i>	1. Rule 3.1.1 <i>[Minimum Levels]</i> ; 2. Rule 3.1.2 <i>[Notice]</i> ; 3. Rule 3.2.2 <i>[Member Capital]</i> ; 4. Form 1 <i>MFDA Financial Questionnaire and Report</i> ; and 5. Policy No. 4 <i>[Internal Control Policy Statements – Policy Statement 2: Capital Adequacy]</i>

section 12.2 [notifying the regulator of a subordination agreement]	1. Form 1 <i>MFDA Financial Questionnaire and Report, Statement F [Statement of Changes in Subordinated Loans]</i> ; and 2. Membership Application Package – Schedule I (Subordinated Loan Agreement)
section 12.3 [insurance – dealer]	1. Rule 4.1 [<i>Financial Institution Bond</i>]; 2. Rule 4.4 [<i>Amounts Required</i>]; 3. Rule 4.5 [<i>Provisos</i>]; and 4. Policy No. 4 [<i>Internal Control Policy Statements – Policy Statement 3: Insurance</i>]
section 12.6 [global bonding or insurance]	1. Rule 4.7 [<i>Global Financial Institution Bonds</i>]
section 12.7 [notifying the regulator of a change, claim or cancellation]	1. Rule 4.2 [<i>Notice of Termination</i>]; and 2. Rule 4.3 [<i>Termination or Cancellation</i>]
section 12.10 [annual financial statements]	1. Rule 3.5.1 [<i>Monthly and Annual</i>]; 2. Rule 3.5.2 [<i>Combined Financial Statements</i>]; and 3. Form 1 <i>MFDA Financial Questionnaire and Report</i>
section 12.11 [interim financial information]	1. Rule 3.5.1 [<i>Monthly and Annual</i>]; 2. Rule 3.5.2 [<i>Combined Financial Statements</i>]; and 3. Form 1 <i>MFDA Financial Questionnaire and Report</i>
section 12.12 [delivering financial information – dealer]	1. Rule 3.5.1 [<i>Monthly and Annual</i>]
section 13.3 [suitability]	1. Rule 2.2.1 [<i>“Know-Your-Client”</i>]; and 2. Policy No. 2 [<i>Minimum Standards for Account Supervision</i>]
section 13.12 [restriction on lending to clients]	1. Rule 3.2.1 [<i>Client Lending and Margin</i>]; and 2. Rule 3.2.3 [<i>Advancing Mutual Fund Redemption Proceeds</i>]
section 13.13 [disclosure when recommending the use of borrowed money]	1. Rule 2.6 [<i>Borrowing for Securities Purchases</i>]
section 13.15 [handling complaints]	1. Rule 2.11 [<i>Complaints</i>] 2. Policy No. 3 [<i>Complaint Handling, Supervisory Investigations and Internal Discipline</i>]; and 3. Policy No. 6 [<i>Information Reporting Requirements</i>]
subsection 14.2(2) [relationship disclosure information]	1. Rule 2.2.5 [<i>Relationship Disclosure</i>]
section 14.6 [holding client assets in trust]	1. Rule 3.3.1 [<i>General</i>]; 2. Rule 3.3.2 [<i>Cash</i>]; and 3. Policy No. 4 [<i>Internal Control Policy Statements – Policy Statement 4: Cash and Securities, and Policy Statement 5: Segregation of Clients’ Securities</i>]
section 14.8 [securities subject to a safekeeping agreement]	1. Rule 3.3.3 [<i>Securities</i>]; and 2. Policy No. 4 [<i>Internal Control Policy Statements – Policy Statement 4: Cash and Securities, and Policy Statement 5: Segregation of Clients’ Securities</i>]
section 14.9 [securities not subject to a safekeeping agreement]	1. Rule 3.3.3 [<i>Securities</i>]
section 14.12 [content and delivery of trade confirmation]	1. Rule 5.4.1 [<i>Delivery of Confirmations</i>]; 2. Rule 5.4.2 [<i>Automatic Payment Plans</i>]; and 3. Rule 5.4.3 [<i>Content</i>]

6. This Regulation comes into force on (insert the date of the coming into force of this Regulation).

**AMENDMENTS TO POLICY STATEMENT TO REGULATION 31-103
RESPECTING REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING
REGISTRANT OBLIGATIONS**

1. Section 3.16 of *Policy Statement to Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* is amended by adding, after the last paragraph, the following:

“We expect registered individuals who are dealing representatives of IIROC or MFDA members to comply with the by-laws, rules, regulations and policies of IIROC or the MFDA, as applicable (SRO provisions). These individuals cannot rely on the exemptions in section 3.16 unless they are complying with the appropriate SRO provisions specified in Regulation 31-103. We regard compliance with IIROC or MFDA procedures, interpretations, notices, bulletins and practices as relevant to compliance with the applicable SRO provisions.”.

2. Section 9.4 of the *Policy Statement* is amended by adding, after the last paragraph, the following:

“We expect registered firms that are members of IIROC or the MFDA to comply with the by-laws, rules, regulations and policies of IIROC or the MFDA, as applicable (SRO provisions). These firms cannot rely on the exemptions in Part 9 unless they are complying with the appropriate SRO provisions specified in Regulation 31-103. We regard compliance with IIROC or MFDA procedures, interpretations, notices, bulletins and practices as relevant to compliance with the applicable SRO provisions.”.