CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CSA Notice and Request for Comment

Draft *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*

Draft *Regulation to Amend Regulation 33-109 respecting Registration Information*, and Related Forms

July 7, 2016

Introduction

The Canadian Securities Administrators (the **CSA** or **we**) are seeking comments on proposals to amend the current regulatory framework for dealers, advisers and investment fund managers.

We are proposing amendments, which range from technical adjustments to more substantive matters. We have organized the draft amendments into four tranches, specifically "Custody Amendments", "Exempt Market Dealer Amendments", "Client Relationship Model Phase 2 Amendments" and "Housekeeping Amendments", each of which is described below. The purpose of these draft amendments is to promote stronger investor protection, to clarify certain regulatory requirements and to enhance certain market efficiencies.

The instruments affected by these draft amendments are as follows:

- *Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**Regulation 31-103**), including Form 31-103F1 *Calculation of Excess Working Capital* (**Form 31-103F1**),
- *Policy Statement to Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**Policy Statement 31-103**), and
- *Regulation 33-109 respecting Registration Information* (**Regulation 33-109**), including its appended forms (**33-109 Forms**).

In this Notice, we may refer to Regulation 31-103, Policy Statement 31-103 and Regulation 33-109 collectively as the "Regulation".

Background

Regulation 31-103 came into force on September 28, 2009 and introduced a harmonized, streamlined and modernized national registration regime. Since implementation, we have monitored the operation of the Regulation and have engaged in continuing dialogue with stakeholders with a view to further enhancing the regime.

On March 28, 2013, the CSA published amendments to Regulation 31-103 and Policy Statement 31-103, which introduced new requirements for client reporting (the **2013 CRM2 Amendments**). The 2013 CRM2 Amendments are being phased in over a three-year period. On October 16, 2014, the CSA published further amendments to Regulation 31-103, Policy Statement 31-103 and related regulations, which clarified the operation of certain provisions of the Regulation (the **October 2014 Amendments** and, together with the 2013 CRM2 Amendments, the **Previous Amendments**). With certain exceptions, the October 2014 Amendments became effective on January 11, 2015.

Following the publication of the Previous Amendments, we have continued to monitor the operation of the Regulation and its impact on stakeholders. We have also considered how the custody requirements in Regulation 31-103 may be enhanced. We are now proposing further amendments as described below.

Substance and purpose

The draft amendments include proposals to:

- enhance custody requirements applicable to registered firms that are not members of the Investment Industry Regulatory Organization of Canada (**IIROC**) or the Mutual Fund Dealers Association of Canada (**MFDA**) (collectively, **Non-SRO Firms**) in order to:
    - address potential intermediary risks when Non-SRO Firms are involved in the custody of client assets,
    - enhance the protection of client assets, and
    - codify existing custodial best practices of Non-SRO Firms,

- clarify the activities that may be conducted under the exempt market dealer category of registration in respect of trades in prospectus-qualified securities,

- make permanent certain temporary relief granted by the CSA in May 2015 relating to the 2013 CRM2 Amendments, as described in CSA Staff Notice 31-341 *Omnibus/Blanket Orders Exempting Registrants from Certain CRM2 Provisions of Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**CSA Staff Notice 31-341**), and also add guidance to Policy Statement 31-103 regarding the delivery of information required by the 2013 CRM2 Amendments, and

- incorporate other changes to the Regulation of a minor housekeeping nature.

We invite comments on all of the draft amendments, particularly on the issues for comment that are set out in shaded boxes in this Notice.

The comment period will end on **October 5, 2016**.

Contents of this Notice

This Notice consists of the following sections:

1. Summary and purpose of the draft amendments to Regulation 31-103, Policy Statement 31-103 and Form 31-103F1

2. Summary and purpose of the draft amendments to Regulation 33-109 and the 33-109 Forms

3. Alternatives considered

4. Anticipated costs and benefits

5. Request for comments

6. Where to find more information

1. Summary and purpose of the draft amendments to Regulation 31-103, Policy Statement 31-103 and Form 31-103F1

The following summarizes the draft amendments and identifies specific issues for comment.

Custody Amendments

Safety of client assets is a fundamental element of the CSA's investor protection mandate. Current custody requirements under Regulation 31-103 focus primarily on the segregation of client assets and do not establish a detailed custodial regime. There are no specific requirements in Regulation 31-103 for Canadian resident Non-SRO Firms as to where and how client assets or investment fund assets are to be held. There are also no restrictions on self-custody (i.e., registered firms acting as custodian or sub-custodian) or the use of a non-independent custodian to hold client assets or investment fund assets.

The Custody Amendments include proposals to:

- require registered firms to ensure that a "qualified custodian" is used to hold securities and cash of a client or an investment fund in certain circumstances,
- with some exceptions, prohibit self-custody by registered firms and prohibit the use of a custodian that is not functionally independent of the registered firm,
- require registered firms to confirm how the securities and cash of a client or an investment fund are being held by a qualified custodian,
- require registered firms to disclose to clients where and how client assets are held or accessed, and
- amend Part 9, Appendix G and Appendix H of Regulation 31-103 in order to exclude IIROC and MFDA members from these custodial requirements on the condition that they comply with the corresponding IIROC or MFDA provisions applicable to them.

The Custody Amendments include exceptions for the following circumstances, among others:

- IIROC and MFDA members that comply with the corresponding IIROC or MFDA provisions that are applicable to them,
- investment funds subject to *Regulation 81-102 respecting Investment Funds* (**Regulation 81-102**) or *Regulation 41-101 respecting General Prospectus Requirements* (**Regulation 41-101**), and
- customer collateral subject to custodial requirements under draft *Regulation 94-102 respecting*

Derivatives: Customer Clearing and Protection of Customer Collateral and Positions, published for comment on January 21, 2016.

In addition, we anticipate that further exclusions from the new requirements under the Custody Amendments will be included in Regulation 31-103 (via consequential amendments) as additional derivatives legislation is implemented in the future.

As mentioned above, the Custody Amendments are designed to address intermediary risks when registered firms are involved in the custody of client assets, and are applicable to investment fund managers, dealers and advisers. Prospectus-qualified investment funds will continue to be subject to the custodial requirements under Regulation 81-102 and Regulation 41-101, as applicable. The Custody Amendments differ in some respects from the custodial requirements applicable to prospectus-qualified investment funds. This reflects the differences in the current regulatory frameworks for prospectus-qualified and prospectus-exempt investment funds as well as the differences in existing business practices.

Although a registered firm may have directed or arranged a custodial relationship for their clients in the past, we do not expect the draft subsection 14.5.2(2) of Regulation 31-103 to apply retroactively. Unlike access to client assets, directing or arranging a custodial relationship is an activity that is not ongoing. However, the draft paragraphs 14.2(2)(a.1) and 14.2(2)(a.2) of Regulation 31-103 require a registered firm to provide certain disclosure regarding where and how client assets are held and accessed. Therefore, we expect registered firms that have directed or arranged the custodial relationship for their clients in the past to inform their clients of the new custodial requirements. In cases where the custodian that was arranged in the past does not meet the requirements of the Custody Amendments, the registered firm should make its client aware of this fact, and direct that client to an alternative custodian that meets the requirements of the Custody Amendments.

If necessary, we will update the references to IIROC and MFDA provisions in the appendices to Regulation 31-103 so that at the time the Custody Amendments come into force, we refer to the most current corresponding IIROC and MFDA provisions.

We are proposing a six-month transition period for the Custody Amendments.

Issue for comment:

We would like feedback on the following:

Draft section 14.5.2 of Policy Statement 31-103 includes guidance for investment fund managers in respect of key terms that they should consider when entering into a written custodial agreement on behalf of the investment funds managed by them.

(1) We invite specific comment on whether this guidance is sufficiently clear and whether it would be helpful when negotiating contract terms with custodians for investment funds that are not subject to Regulation 81-102 and Regulation 41-101. Should there instead be prescribed key terms for custodial agreements in Regulation 31-103, similar to the requirements found in Regulation 81-102 and Regulation 41-101? In particular, should there be a requirement for such custodial agreements to include a prescribed standard of care and responsibility for loss for the custodian?

Exempt Market Dealer Amendments

In connection with the October 2014 Amendments, the CSA published advance notice of possible amendments to Regulation 31-103 to restrict the activities that exempt market dealers may conduct. Specifically, we indicated that we would examine further what activities an exempt market dealer should be permitted to conduct and may propose further amendments, including in respect of the dealer exemption for advisers trading in prospectus-qualified securities of affiliated investment funds. We have now completed the required work and are proposing the following changes to Regulation 31-103:

- remove the words "whether or not a prospectus was filed in respect of the distribution" from subparagraph 7.1(2)(d)(i), to clarify that exempt market dealers may not participate in offerings of securities under prospectuses in any capacity, including as underwriters and selling group members; this includes securities underlying special warrants that are qualified by a prospectus,
- revise and clarify the activities that exempt market dealers may engage in with respect to the resale of securities,
- the restriction currently found in subsection 7.1(5) that restricts exempt market dealers from trading in securities whose classes are listed, quoted or traded on a marketplace, whether on-exchange or off-exchange, can now be found in subparagraph 7.1(2)(d)(ii), and
- expand the exemption from the dealer registration requirement in section 8.6 so that registered advisers may trade in the securities of investment funds (including, as is the case today, those distributed under a prospectus) if the adviser or an affiliate manages the investment fund and certain conditions are met.

The draft amendment to section 8.6 would broaden the exemption from dealer registration for advisers that use affiliated investment funds as an efficient way to invest their clients' money.

We also propose to revise Policy Statement 31-103 to clarify matters relating to these changes.

Issues for comment:

We would like feedback on the following:

(2) If you are an adviser that is also registered as an exempt market dealer, are you currently using your dealer registration to distribute securities of reporting issuers, either to managed accounts or to other client accounts? If so, please indicate the types of securities (i.e., securities of investment funds or non-investment funds, whether listed or otherwise).

(3) Will advisers use the draft section 8.6 to distribute prospectus-qualified securities of investment funds, including mutual funds, directly? Are the conditions of this exemption appropriate? If not, why not?

Client Relationship Model Phase 2 Amendments

Background

On March 28, 2013, the CSA published the 2013 CRM2 Amendments to be implemented over three years. IIROC and the MFDA have since adopted amendments to their respective member rules that are materially harmonized with the 2013 CRM2 Amendments.

In May 2015, CSA members issued parallel relief orders (the **CRM2 Orders**) to address each of the following:

- decisions made by the CSA with regard to requests for more time to implement certain of the 2013 CRM2 Amendments,
- certain technical issues that had been identified relating to the delivery of the information required by the 2013 CRM2 Amendments,
- relief from the requirement to identify securities that may be covered under an investor protection fund, and
- relief for IIROC and MFDA members from certain 2013 CRM2 Amendments, if they comply with the corresponding IIROC or MFDA provisions then in effect.

The CRM2 Orders are described in detail in CSA Staff Notice 31-341.

We are now proposing that Regulation 31-103 be amended to make permanent certain temporary relief granted by the CRM2 Orders by incorporating the substance of the temporary relief into Regulation 31-103. Any differences between the relief provided by the CRM2 Orders and the draft amendments are the result of drafting conventions and we are of the view that the draft amendments achieve the same results as the CRM2 Orders.

We also propose to revise Regulation 31-103 and Policy Statement 31-103 to address matters that have arisen in the course of implementing the 2013 CRM2 Amendments, as set out below.

Relief for IIROC and MFDA members from certain 2013 CRM2 Amendments

We propose to revise sections 9.3 [*exemptions from certain requirements for IIROC members*] and 9.4 [*exemptions from certain requirements for MFDA members*] and Appendices G and H of Regulation 31-103 to:

- codify the exemptions described in CSA Staff Notice 31-341 for IIROC and MFDA members, and
- grant additional exemptions from certain requirements of Regulation 31-103 to IIROC and MFDA members where IIROC and MFDA rules adequately address the same regulatory risks.

The addition of exemptions to sections 9.3 and 9.4 is the result of conforming amendments to IIROC and MFDA member rules coming into force.

Section 13.17 [*exemption from certain requirements for registered sub-advisers*] of Regulation 31-103

We propose to revise section 13.17 of Regulation 31-103 to add exemptions from certain 2013 CRM2 Amendments for a registered adviser who is acting as a sub-adviser to a registered adviser or registered dealer. These reporting requirements may not be necessary in a sub-advisory arrangement, or if necessary, are customized to the relevant business needs and agreed to contractually.

Section 14.1.1 [*duty to provide information*] of Regulation 31-103 and Division 1 of Part 14 of Policy Statement 31-103

We propose to revise section 14.1.1 of Regulation 31-103, which is scheduled to come into force on July 15, 2016, and Division 1 of Part 14 of Policy Statement 31-103, to clarify the requirement for investment fund managers to provide dealers and advisers with certain information.

Section 14.2 [*relationship disclosure information*] of Policy Statement 31-103

We propose additional guidance to set out our expectations about disclosure when a firm primarily invests its clients' money in securities of related issuers. We expect the disclosure to include information about commissions paid by issuers and bonuses received from affiliated companies, as well as general information about management fees associated with mutual funds.

Section 14.2.1 [pre-trade disclosure of charges] of Policy Statement 31-103

We propose additional guidance to set out our expectations in the case of a client who is a frequent trader.

Subsection 14.11.1(3) [*determining market value*] of 31-103

The current subsection 14.11.1(3) is being replaced on July 15, 2016. We propose to revise subsection 14.11.1(3), which is scheduled to come into force on July 15, 2016, to remove references to section 14.18 and subsection 14.19(1) of Regulation 31-103. Subsection 14.19(7) addresses the procedure to follow if market value cannot be determined when calculating the information required to be delivered in the investment performance reports.

Section 14.11.1 [*determining market value*] of Policy Statement 31-103

We propose additional guidance with regard to the basis on which market value is to be determined for client reporting purposes.

Section 14.14 [*account statements*] of Regulation 31-103 and section 14.14 of Policy Statement 31-103

We propose to revise subsection 14.14(4) of Regulation 31-103 to clarify that dividend and interest payments must be disclosed in account statements. We also propose additional guidance in Policy Statement 31-103 regarding supplementary reporting in addition to the required account statements.

Investor Protection Fund Disclosure

We propose to revise paragraphs 14.14(5)(f) [*account statements*] and 14.14.1(2)(g) [*additional statements*] of Regulation 31-103 to clarify the required investor protection fund disclosure.

We also propose a new subsection (2.1) to section 14.14.1 [*additional statements*] of Regulation 31-103, and guidance to Policy Statement 31-103, to specify that the investor protection fund disclosure required by paragraph 14.14.1(2)(g) does not apply when:

- the party holding the securities is required, under section 14.14 of Regulation 31-103, or under an IIROC or MFDA rule, to deliver an account statement to the client, and
- such statement includes disclosure regarding the applicable investor protection fund.

This addition is being made in order to avoid the potential that a client might receive inaccurate information about the extent of investor protection fund coverage from a registered firm that is not itself a member of the fund.

Section 14.14.2 [*position cost information*] of Regulation 31-103 and section 14.14.2 of Policy Statement 31-103

We propose to revise section 14.14.2 to allow a firm to disclose, for a security position that was opened before July 15, 2015, market value as at December 31, 2015, or an earlier date, if that earlier date is reasonable based on certain criteria. We also propose additional guidance to Policy Statement 31-103 with respect to these draft amendments.

Section 14.17 [*report on charges and other compensation*] of Policy Statement 31-103

We propose additional guidance about disclosure of a firm's operating charges and payments from issuers of securities.

Section 14.19 [*content of investment performance report*] of Regulation 31-103 and section 14.19 of Policy Statement 31-103

We propose to revise section 14.19 so that the requirement that investment performance reports must include market value information as at and since July 15, 2015, if the account was opened before July 15, 2015, may instead be met as follows:

- where the firm reports on a calendar year basis (i.e., its first reports will cover the period from January 1 to December 31, 2016), by including market value information as at and since January 1, 2016 (the firm is not required to provide the information for any earlier period), or a date earlier than January 1, 2016 if that earlier date is reasonable based on certain criteria; and
- where the firm does not report on a calendar year basis (e.g., its first reports will cover the period from July 15, 2016 to July 14, 2017), by including market value information as at and since July 15, 2015, or a date earlier than July 15, 2015 if that earlier date is reasonable based on certain criteria.

We also propose to revise section 14.19 so that the requirement that investment performance reports must include annualized total percentage return information since inception or for the period since July 15, 2015 may instead be met as follows, if the account was opened before July 15, 2015:

- where the firm reports on a calendar year basis, by providing the information for the period since January 1, 2016, or a date earlier than January 1, 2016 if that earlier date is reasonable based on certain criteria; and
- where the firm does not report on a calendar year basis, by providing the information for the period since July 15, 2015, or a date earlier than July 15, 2015 if that earlier date is reasonable based on certain criteria.

We also propose additional guidance to Policy Statement 31-103 with respect to these draft amendments.

Issues for comment:

Section 14.17 [report on charges and other compensation]

The annual report on charges and other compensation requires disclosure of the amounts paid to the registered dealer or registered adviser that provides the report. This disclosure shows the client the costs and incentives related to their investment account.

(4) Non-cash incentives

The report does not extend to non-cash incentives that may be paid to the dealer or adviser and its representatives, such as promotions or other employment benefits, for sales of certain products. We are considering ways of making clients aware of these kinds of incentives.

We invite specific comments on the potential usefulness of adding a new requirement that, where a firm or its representatives received or may receive incentives not captured by the existing provisions, the annual report must specifically list all additional sales incentives and must include prescribed text to the following effect: "In addition to the payments specified in this report, [the firm] or its representatives may also receive other sales incentives related to the securities that you have purchased through us. These incentives can influence representatives to recommend one investment over another".

(5) Embedded fee disclosure

The report does not extend to the ongoing costs of owning securities with embedded fees paid to issuers, such as mutual fund management fees. We are considering ways of making clients more aware of such fees.

We invite specific comment on the potential usefulness of adding a general notification in the annual report that would remind clients invested in mutual funds, or other securities with embedded fees about the following:

- management fees are paid to the issuer, whether or not the dealer or adviser receives any trailing commissions or other payments tied to those fees, and
- these fees may reduce the client's investment returns.

Housekeeping Amendments

We are also proposing certain minor amendments of a housekeeping nature to Regulation 31-103 and Policy Statement 31-103 that, in many cases, reflect clarifying drafting changes.

Changes to reflect Local Amendments in Alberta

The draft amendments to Regulation 31-103 include (with some minor additional clarification) Alberta-specific changes that have already been adopted in Alberta (as well as New Brunswick and Québec) and are identified in the March 12, 2015 CSA Staff Notice 11-328 *Notice of Local Amendments in Alberta and the Adoption of Multilateral Amendments in Yukon* (**CSA Staff Notice 11-328**). These Alberta-specific changes reflect amendments to the *Securities Act* (Alberta) (**Alberta Act**) that were made on

October 31, 2014 to create a framework for derivatives regulation. As CSA Staff Notice 11-328 explained, the Alberta Act was amended to add a definition of "derivatives" and replace throughout the Alberta Act, where necessary, the terms "exchange contract" and "futures contract" with the term "derivative."

These Alberta-specific changes (with minor clarification) affect sections 1.2, 8.2, 8.20, 8.20.1 and 8.26 of Regulation 31-103.

Changes relating to firms registered in Québec in the mutual fund dealer category

Delivery of financial information

We are proposing changes to the delivery of financial information requirements applicable to firms registered in Québec in the mutual fund dealer category, as follows:

- section 12.12 [*delivering financial information – dealer*] of Regulation 31-103 would be made applicable in Québec notwithstanding subsection 9.4(4). That subsection would be amended by providing that paragraph 9.4(1)(h) applies to a mutual fund dealer in Québec,

- section 12.12 itself would be amended to allow a mutual fund dealer registered in Québec, that is not a member of the MFDA and that is not registered in any other category, to deliver to the regulatory authority the *Monthly Report on Net Free Capital* provided in Appendix I of the *Regulation respecting the trust accounts and financial resources of securities firms* that shows the calculation of the firm's net free capital as at the end of the prescribed period. This would provide an option to mutual fund dealers in Québec to provide only one calculation of their regulatory capital,

- since section 12.12 would be made applicable, mutual fund dealers registered in Québec that are members of the MFDA would benefit from the exemption provided in subsection (2.1) and deliver the MFDA Form 1 *MFDA Financial Questionnaire and Report*, on the same terms and conditions as MFDA member firms outside Québec, and

- Line 10 of Form 31-103F1 *Calculation of Excess Working Capital* would be amended to provide the deduction of a deductible under the firm's liability insurance instead of the bonding or insurance required under Part 12 of Regulation 31-103 for mutual fund dealers registered only in Québec and solely in that category.

Impact of custody amendments

It is important for firms registered in Québec in the mutual fund dealer category to note that the Custody Amendments would prohibit them from holding securities and cash in nominee name.

The Autorité des marchés financiers is seeking comments on these amendments and their impact.

International adviser exemption

The draft amendment to the adviser registration exemption in subsection 8.26(3) [*international adviser*] of Regulation 31-103 will clarify that the relevant advice to a permitted client must be in relation to a

foreign security, and cannot be in relation to securities that are not foreign securities (unless providing that advice is incidental to providing advice on a foreign security).

Schedule 1 to Form 31-103F1 Calculation of Excess Working Capital

The draft amendment to paragraph (2)(a)(i) will replace the present references to specific rating organizations with a reference to "designated rating organization" (which is defined in section 1.1 of Regulation 31-103 to have the same meaning as in Regulation 81-102). This will have the effect of including certain additional rating organizations.

2. Summary and purpose of the draft amendments to Regulation 33-109 and the 33-109 Forms

The following summarizes the draft amendments.

Form 33-109F6

Firms that are seeking registration under securities legislation, derivatives legislation or both are required to complete and submit a Form 33-109F6 *Firm Registration*.

Item 4.2 [*Exemption from securities registration*] of Form 33-109F6 requires the firm to provide information on exemptions from registration or licensing to trade or advise in securities or derivatives that the firm is currently relying on. The draft amendment to Item 4.2 of Form 33-109F6 would eliminate the requirement to provide this in the Form if the firm has already notified the securities regulator or, in Québec, the securities regulatory authority, in accordance with the applicable exemption.

Preconditions to the use of Form 33-109F7

As explained in section 2.5 of *Policy Statement to Regulation 33-109 respecting Registration Information*, when an individual leaves a sponsoring firm and joins a new registered firm, they may submit a Form 33-109F7 *Reinstatement of Registered Individuals and Permitted Individuals* to have their registration or permitted individual status automatically reinstated in one or more of the same categories and jurisdictions as before, subject to all of the conditions specified in subsection 2.3(2) or 2.5(2) of Regulation 33-109.

Among the specified conditions is a requirement in subparagraph 2.3(2)(c)(i) that, after the individual's cessation date, there have been no changes to the information previously submitted in respect of Item 13 [*Regulatory disclosure*] of the individual's Form 33-109F4 *Registration of Individuals and Review of Permitted Individuals*, other than in respect of Item 13.3(c). We have reconsidered the exception for information in respect of Item 13.3(c), and are now proposing that the present reference to Item 13.3(c) be revised to instead refer to Item 13.3(a), with corresponding changes to Form 33-109F7 in the General Instructions and Item 9.1.

3. Alternatives considered

The alternatives considered, depending upon the amendment, were to:

- issue staff guidance to clarify regulatory expectations for registered firms and promote best practices, or
- grant discretionary exemptions.

The CSA has concluded that these matters are best addressed through rule-making.

4. Anticipated costs and benefits

Custody Amendments

The Custody Amendments will make custodial requirements applicable to registered firms more clear while at the same time strengthening our regulatory regime and enhancing investor protection. They will provide CSA staff with a more precise regulatory tool to use when we identify improper custodial practices.

We do not expect that the Custody Amendments will have a significant impact on a client's choice of custodian given that the majority of the custodians currently used by clients of registered firms would meet the definition of a "qualified custodian". We expect that the Custody Amendments will have minimal impact on most registered firms as we understand that the Custody Amendments generally codify existing business practices.

EMD Amendments

The CSA stated in the notice of final amendments for the October 2014 Amendments that, as a general matter, we think the appropriate dealer registration category for participating in prospectus offerings is the investment dealer category. We further stated in this notice of final amendments that we do not think, as a matter of policy, it makes sense to allow the exempt market dealer category to develop further into a competing platform for issuers that wish to make prospectus offerings. The draft amendments are consistent with this previously communicated expectation of how exempt market dealers should be operating and, as such, we expect the impact on registered firms will be limited.

Client Relationship Model Phase 2 Amendments

The Client Relationship Model Phase 2 Amendments make permanent certain of the temporary relief granted by the CSA as described in CSA Staff Notice 31-341, and add guidance regarding the delivery of information required by the 2013 CRM2 Amendments. For this reason, we do not expect that there will be any significant impact on registered firms.

5. Request for comments

We would like your input on the draft amendments. **Please include a prominent reference to the subject matter of your comments. For example, please include a subject line similar to the following: "RE: Custody Amendments".**

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. 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.

Thank you in advance for your comments.

Deadline for comments

Your comments must be submitted in writing by **October 5, 2016**.

Please send your comments electronically in Word, Windows format.

Where to send your comments

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

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

Please send your comments by email **only** to the following representatives of the following CSA member jurisdictions below. Your comments will be forwarded to the other CSA member jurisdictions.

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, rue du Square-Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
Fax: 514 864-6381
E-mail: consultation-en-cours@lautorite.qc.ca

Robert Blair, Secretary (Acting)
Ontario Securities Commission
20 Queen Street West, Suite 2200, Box 55
Toronto, ON M5H 3S8
Fax: 416 593-2390
E-mail: comments@osc.gov.on.ca

Questions

Please refer your questions to any of the following:

Sophie Jean
Directrice de l'encadrement des intermédiaires
Autorité des marchés financiers
514 395-0337, ext. 4801 or
1 877 525-0337
sophie.jean@lautorite.qc.ca

Isaac Filate
Senior Legal Counsel
Capital Markets Regulation
British Columbia Securities Commission
604 899-6573
1 800 373-6393
ifilate@bcsc.bc.ca

Anne Hamilton
Senior Legal Counsel
Capital Markets Regulation
British Columbia Securities Commission
604 899-6716
1 800 373-6393
ahamilton@bcsc.bc.ca

Navdeep Gill
Manager, Registration
Alberta Securities Commission
403 355-9043
navdeep.gill@asc.ca

Liz Kutarna
Deputy Director, Capital Markets
Securities Division
Financial and Consumer Affairs Authority of Saskatchewan
306 787-5871
liz.kutarna@gov.sk.ca

Chris Besko
Director, General Counsel
The Manitoba Securities Commission
204 945-2561 and 1 800 655-5244
(Toll Free (Manitoba only))
chris.besko@gov.mb.ca

Chris Jepson
Senior Legal Counsel
Compliance and Registrant Regulation
Ontario Securities Commission
416 593-2379
cjepson@osc.gov.on.ca

Jessica Leung
Senior Accountant
Compliance and Registrant Regulation
Ontario Securities Commission
416 593-8143
jleung@osc.gov.on.ca

Amy Tsai
Legal Counsel
Compliance and Registrant Regulation
Ontario Securities Commission
416 593-8074
atsai@osc.gov.on.ca

Brian W. Murphy
Deputy Director, Capital Markets
Nova Scotia Securities Commission
902 424-4592
murphybw@gov.ns.ca

Jason Alcorn
Senior Legal Counsel, Securities
Financial and Consumer Services Commission (NB)
506 643-7857
jason.alcorn@fcnb.ca

Steven Dowling
Acting Director
Consumer, Labour and Financial Services Division
Justice and Public Safety
Government of Prince Edward Island
902 368-4551
sddowling@gov.pe.ca

John O'Brien
Superintendent of Securities
Service NL
Government of Newfoundland and Labrador
709 729-4909
johnobrien@gov.nl.ca

Jeff Mason
Director of Legal Registries
Department of Justice, Government of Nunavut
867 975-6591
jmason@gov.nu.ca

Thomas Hall
Superintendent of Securities
Department of Justice
Government of the Northwest Territories
867 767-9305
tom_hall@gov.nt.ca

Rhonda Horte
Deputy Superintendent
Office of the Yukon Superintendent of Securities
867 667-5466
rhonda.horte@gov.yk.ca

6. Where to find more information

We are publishing the draft amendments with this Notice. The draft amendments are also available on websites of CSA members, including:

www.bcsc.bc.ca
www.albertasecurities.com
www.fcaa.gov.sk.ca
www.msc.gov.mb.ca
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