

NOTICE AND REQUEST FOR COMMENTS

DRAFT CONSEQUENTIAL AMENDMENTS TO REGISTRATION, PROSPECTUS AND CONTINUOUS DISCLOSURE RULES RELATED TO *REGULATION 25-101 RESPECTING DESIGNATED RATING ORGANIZATIONS*

1. Introduction

We, the Canadian Securities Administrators (CSA) are publishing for a 90 day comment period draft amendments to:

- *Policy Statement to Regulation 21-101 respecting Marketplace Operation;*
- *Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations, including Form 31-103F1, Calculation of Excess Working Capital;*
- *Regulation 33-109 respecting Registration Information, including Form 33-109F6, Firm Registration;*
- *Regulation 41-101 respecting General Prospectus Requirements;*
- *Regulation 44-101 respecting Short Form Prospectus Distributions (**Regulation 44-101**), including Form 44-101F1, Short Form Prospectus;*
- *Policy Statement to Regulation 44-101 respecting Short Form Prospectus Distributions;*
- *Regulation 44-102 respecting Shelf Distributions;*
- *Policy Statement to Regulation 44-102 respecting Shelf Distributions;*
- *Regulation 45-106 respecting Prospectus and Registration Exemptions (**Regulation 45-106**);*
- *Regulation 51-102 respecting Continuous Disclosure Obligations;*
- *National Policy 51-201: Disclosure Standards;*
- *Regulation 81-101 respecting Mutual Fund Prospectus Disclosure;*
- *Regulation 81-102 respecting Mutual Funds (**Regulation 81-102**);*
- *Policy Statement to Regulation 81-102 respecting Mutual Funds;*
- *Regulation 81-106 respecting Investment Fund Continuous Disclosure;*

(collectively, the **DRO Consequential Amendments**). The DRO Consequential Amendments are published with this Notice.

2. Background

On January 27, 2012, the CSA published a notice (the **January Notice**) regarding the adoption of *Regulation 25-101 respecting Designated Rating Organizations (**Regulation 25-101**)*, related consequential amendments and *Policy Statement 11-205 respecting Process for Designation of Credit Rating Organizations in Multiple Jurisdictions*, which came into effect on April 20, 2012. Regulation 25-101 imposes requirements on those credit rating agencies or organizations (**CROs**) that wish to have their credit ratings

eligible for use in securities legislation by requiring them to apply to become a “designated rating organization” (**DRO**) and adhere to rules concerning conflicts of interest, governance, conduct, compliance and required filings (the **DRO Regime**). This regulatory framework is consistent with international regimes applicable to CROs.

In the January Notice, the CSA indicated that, following the implementation of Regulation 25-101 and the application for designation by interested CROs, the CSA would propose to make the DRO Consequential Amendments in order to implement the DRO Regime.

On April 30, 2012, the CSA announced the designation of DBRS Limited, Fitch, Inc., Moody’s Canada Inc., and Standard & Poor’s Rating Services (Canada) as DROs under applicable securities legislation, as contemplated under Regulation 25-101 (the **April Designation Orders**). The four rating agencies granted DRO status are in compliance in all material respects with U.S. federal securities laws applicable to a nationally recognized statistical rating organization (NRSRO). The April Designation Orders make each of the DROs subject to regulation under applicable Canadian securities legislation and provide a six month transition period to fully implement all requirements set out in Regulation 25-101. Once they have done so, the CSA expect to issue and announce amended and restated designation orders under the terms of Regulation 25-101.

3. Substance and Purpose of the DRO Consequential Amendments

Many investors and intermediaries rely on credit ratings when making investment decisions about debt securities and other structured products. Canadian securities legislation also includes a number of references to credit ratings. Some of these provisions permit different treatment based on the credit rating. For example, highly rated short-term debt securities can be distributed under an exemption from registration and prospectus requirements¹, can be distributed by short-form prospectus², are “qualified securities”³ for mutual funds and are eligible investments for money-market funds⁴. These provisions currently include references to “approved rating”, “approved credit rating”, “approved rating organization” and “approved credit rating organization”.

The DRO Consequential Amendments will replace these existing references to “approved rating organization”, and “approved credit rating organization” with “designated rating organization”. Similarly, the terms “approved rating” and “approved credit rating” will be replaced with “designated rating” and amended to include a rating provided by a DRO affiliate, another defined term in Regulation 25-101.

We are also publishing for comment a related consequential amendment to Item 7.9 of Form 44-101F1 *Short Form Prospectus* to clarify that the disclosure of an issuer’s

¹ See section 2.35 of Regulation 45-106.

² See sections 2.3, 2.4 and 2.6 of Regulation 44-101.

³ See the definition of “qualified security” in section 1.1 of Regulation 81-102.

⁴ See the definition of “money market fund” in section 1.1 of Regulation 81-102.

relationship with a CRO is limited to the securities being distributed under a short form prospectus.

4. Local Notices and Amendments

Certain jurisdictions are publishing other information required by local securities legislation as an appendix to this Notice.

5. Comments

We request your comments on the DRO Consequential Amendments. Please provide your comments in writing by **October 24, 2012**. If you are not sending your comments by email, an electronic file containing the submissions should also be provided (Windows format, Word).

Please address your submission to the following Canadian securities regulatory authorities:

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
 Securities Commission of Newfoundland and Labrador
 Superintendent of Securities, Yukon Territory
 Superintendent of Securities, Northwest Territories
 Superintendent of Securities, Nunavut

Please deliver your comments **only** to the addresses that follow. Your comments will be distributed to the other participating CSA member jurisdictions.

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Please note that comments received will be made publicly available and posted at www.osc.gov.on.ca and the websites of certain other securities regulatory authorities. We cannot keep submissions confidential because securities legislation in certain provinces requires that a summary of the written comments received during the comment period be published.

6. Questions

If you have any questions, please refer them to any of the following:

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