Notice

Regulation 31-103 respecting Registration Requirements and Exemptions

Policy Statement to Regulation 31-103 respecting Registration Requirements and Exemptions

Consequential Amendments

Introduction

The Canadian Securities Administrators (the CSA or we) have approved *Regulation 31-103 respecting Registration Requirements and Exemptions* (the Regulation), *Policy Statement to Regulation 31-103 respecting Registration Requirements and Exemptions* (the Policy Statement) and amendments to related instruments, policies and forms. We refer to the Regulation and Policy Statement as the Regulation. Subject to Ministerial approval requirements, the Regulation will come into force on September 28, 2009 (the Implementation Date).

Adopting the Regulation is the last phase of the CSA registration reform project to create a flexible and efficient national registration regime. In addition to the development and implementation of the Regulation, the project has three other phases:

- the National Registration System (implemented in 2005), which will be replaced on the Implementation Date by the passport system under *Regulation 11-102 respecting Passport System* (Regulation 11-102) and passport interface with Ontario under *Policy Statement 11-204 respecting Process for Registration in Multiple Jurisdictions* (Policy Statement 11-204)

- amendments to the registration application process and the use of the National Registration Database (NRD) (implemented in 2007), and

- implementing the core client relationship model (CRM) principles through by-laws of the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA) (collectively, the self-regulatory organizations or SROs) (published for comment in 2008 and 2009).

Contents of this Notice

This Notice gives an overview of the new CSA registration regime and information about the transition to the new regime. The Notice consists of the following 10 sections:

1. Purpose of the Regulation
2. Feedback on the 2008 Proposal
3. Changes to the 2008 Proposal
4. The registration regime
5. The registration process
6. Transition
7. SRO rule amendments
8. Legislative amendments and adoption of the Regulation
9. Consequential amendments

10. Where to find more information

The Notice also contains the following appendices:

- Appendix A *Summary of comments and responses on the 2008 Proposal*
- Appendix B *Summary of changes to the 2008 Proposal*
- Appendix C *Concordance of changes to the 2008 Proposal*
- Appendix D *Alternative approach to regulating exempt market intermediaries in certain jurisdictions*
- Appendix E CSA Staff Notice 31-311 Draft *Regulation 31-103 respecting Registration Requirements and Exemptions - Transition into the new registration regime*
- Appendix F *Adoption of the Regulation and consequential amendments*
- Appendix G *Consequential changes to regulations and policy statements*

A blackline version of the Regulation reflecting changes to the 2008 Proposal is available on some CSA websites.

1. Purpose of the Regulation

The Regulation and related amendments harmonize, streamline and modernize registration requirements across Canada for firms and individuals who sell securities (and exchange contracts in some jurisdictions), offer investment advice or manage investment funds. The Regulation is intended to strike an appropriate balance between providing an efficient system for registrants and protecting investors.

We think that the Regulation will help create a more efficient business environment for approximately 2,000 firms and 130,000 individuals currently registered under securities legislation. This should result in cost savings for industry and ultimately, for investors. We also expect to see a reduction in the regulatory burden for industry through the adoption of a permanent registration regime and streamlined transfer procedures.

At the same time, more comprehensive requirements should benefit investors and allow us to more effectively regulate market participants. We have expanded the requirement to register to include investment fund managers and exempt market dealers. The Regulation sets out higher proficiency standards for some registrants and introduces requirements relating to complaint handling and dispute resolution. The Regulation also addresses conflicts of interest and enhances solvency requirements. A key emphasis in the Regulation is compliance oversight at firms, including individuals who are responsible for the firm's overall compliance with regulatory requirements.

We recognize that the registration regime must accommodate a wide variety of business models, scales of operation, clients and products. To create flexible regulation, the Regulation combines principles, supported by guidance in the Policy Statement, with prescriptive elements, where appropriate.

We reorganized the Regulation since we last published it to allow registrants to better understand, and comply with, the registration requirements. We now clearly distinguish between the requirements applicable to individuals and to firms. We also reordered and renumbered the Policy Statement in accordance with the Regulation. The section numbers in the Policy Statement match those of the corresponding provisions in the Regulation, to allow for easy reference.

We will monitor the implementation of the Regulation, and we will propose amendments to the Regulation if investor protection, market efficiency or other regulatory concerns arise.

2. Feedback on the 2008 Proposal

The Regulation and related amendments were published for comment on February 20, 2007 (the 2007 Proposal) and on February 29, 2008 (the 2008 Proposal). We received more than 300 comment letters on the 2008 Proposal. We thank everyone who provided comments. You can find a summary of the comments we received on the 2008 Proposal, together with our responses, in Appendix A of this Notice.

Copies of the comment letters are posted on the following websites:

www.lautorite.qc.ca
www.osc.gov.on.ca

3. Changes to the 2008 Proposal

We considered all comments received on the 2008 Proposal and have made changes to the Regulation. We concluded that these changes do not require the CSA to publish the Regulation for another comment period. You can find a description of the key changes we made to the 2008 Proposal in Appendix B of this Notice.

4. The registration regime

The new registration regime includes the Regulation, the passport system and passport interfaces with Ontario, and securities legislation and instruments in all the provinces and territories.

The Regulation provides that if on the day before the Implementation Date an individual or firm is entitled to rely on discretionary relief from a requirement that is substantially similar to a requirement in the Regulation, they can continue to rely on that relief, to the same extent and on the same conditions.

This section provides an overview of the registration regime.

a) Requirement to register

The requirement to register is found in the securities legislation of each province and territory. Firms must register if they are in the business of trading in, or advising on, securities, or if they act as an underwriter or manage an investment fund.

Individuals must register if they trade, underwrite or advise on behalf of a registered dealer or adviser, or act as the ultimate designated person (UDP) or chief compliance officer (CCO) of a registered firm. Individuals who act on behalf of a registered investment fund manager do not have to register.

Individuals and firms must apply for registration in the applicable categories and demonstrate that they have met the requirements for registration in those categories. These requirements are designed to ensure that individuals and firms are fit for registration.

Business trigger for dealers and advisers

Under the new regime, dealer and adviser registration is required when an individual or firm conducts trading or advising activity as a business. We call this the “business trigger” for registration. To determine whether registration is required, a firm or individual must consider whether their activities amount to trading or advising, and then determine whether they are carrying out those activities as a business.

In general, we consider factors such as whether the individual or firm is engaging in activities similar to a registrant, intermediating trades between sellers and purchasers, conducting the activity repeatedly, receiving compensation or soliciting clients. The Policy Statement discusses how we apply the business trigger in Part 1, *Fundamental concepts*.

The business trigger provides a more focused framework for registration. This eliminates the need for certain exemptions and we expect it will reduce the need for discretionary relief applications. For example, the exemption for trades between an individual and their RRSP is not necessary because the individual is not in the business of trading in securities.

As a result of adopting a business trigger for dealer registration, some industry participants who are currently required to register will not be required to register.

Implementation of the business trigger for dealers

The business trigger for dealer registration is new. In most provinces and territories, the business trigger will be implemented by legislative amendments. The Securities Acts in these provinces and territories will require dealer registration only when an individual or firm is in the business of trading.

In Alberta, the legislation will require an individual or firm that is in the business of *dealing* in securities to register as a dealer. However, the Alberta Securities Commission (ASC) will implement, concurrently with the Regulation, ASC Rule 31-504 *Dealer Registration Requirement - Scope of Application* to specify the scope of application of the dealer registration requirement in the *Securities Act* (Alberta) and to harmonize the registration requirement with the other jurisdictions.

The legislation in British Columbia, Manitoba and New Brunswick will not include a business trigger for dealer registration. However, to achieve the same result, the Regulation includes an exemption in those provinces for a firm or individual that is not in the business of trading.

The effect of all these approaches is the same.

Registration trigger for investment fund managers

There is no business trigger for registration as an investment fund manager. If a firm engages in investment fund manager activities, it must register.

Individuals carrying out activities on behalf of a registered investment fund manager do not have to register. The Regulation provides an exemption for these individuals. However, an investment fund manager's UDP and CCO must be registered.

All provinces and territories have amended their Securities Acts to require a firm or individual that manages an investment fund to register as an investment fund manager.

b) Registration categories

Categories of registration serve two main purposes:

- to specify the types of registerable activity a firm or individual may conduct, and
- to provide specific requirements for each category

"Registerable activity" means any activity requiring registration as a dealer, adviser or investment fund manager.

Although we have introduced a few new categories, overall the number of individual and firm categories has been significantly reduced. We expect that this will simplify the application process for registration and reduce regulatory burden.

Firm categories

The table below sets out the firm registration categories under the new regime.

Firm registration categories		
Dealers	**Advisers**	**Investment fund managers**
• Investment dealer • Mutual fund dealer • Scholarship plan dealer • Exempt market dealer (new) • Restricted dealer (new)	• Portfolio manager • Restricted portfolio manager (new)	• Investment fund manager (new)

Exempt market dealer

In Ontario and in Newfoundland and Labrador, this category replaces the category of limited market dealer. In all other jurisdictions, this is a new category of registration. The existing registration exemptions for capital raising will be repealed.

The exempt market dealer category restricts an individual or firm to acting as a dealer in the "exempt market". The permitted activities of an exempt market dealer are determined with reference to *Regulation 45-106 respecting Prospectus and Registration Exemptions* (Regulation 45-106). The key permitted activities for an exempt market dealer are trades of prospectus-exempt securities to specified clients, including "accredited investors", trades in securities to clients who purchase a minimum of $150,000 of a security in one transaction, and, where permitted, trades in securities distributed under an offering memorandum.

Alberta, British Columbia, Manitoba, the Northwest Territories, Nunavut and the Yukon Territory will introduce an order exempting individuals and firms from the dealer registration requirement when they trade in securities that have been distributed under one of the following prospectus exemptions in Regulation 45-106:

- accredited investor
- family, friends and business associates
- offering memorandum, or
- minimum $150,000 purchase of a security in one transaction

To rely on this order, an individual or firm in one of those provinces or territories must:

- not be registered in any category of registration in any jurisdiction
- not provide suitability advice about the trade to the purchaser

- except in British Columbia, not otherwise provide financial services to the purchaser
- not hold or have access to the purchaser's assets
- provide risk disclosure in the prescribed form to the purchaser, and
- file an information report with the securities regulatory authority

See Appendix D of this Notice for more information about this order.

Saskatchewan is considering whether it will adopt this exemption and will release a separate notice when it has made its decision.

Restricted dealer

This new category of registration is intended to accommodate firms that carry out limited dealing activities and do not fall under any other firm categories. This provides us with flexibility to recognize unique business models, including certain existing local registration categories that will be converted into this category. The regulator will attach terms and conditions on the firm's registration restricting that dealer's proposed activity.

Underwriting

Underwriting is permitted for certain dealer categories. Investment dealers may underwrite any securities. Exempt market dealers may underwrite securities in limited circumstances.

Restricted portfolio manager

This new category of registration is intended to accommodate specialist advisers. These advisers have specialized expertise, but they may not have the proficiency required for full portfolio manager registration. The regulator will impose terms and conditions on a restricted portfolio manager's registration to restrict it to advising on specified securities, types or classes or securities, or specified industries.

Investment fund manager

This is a new category of registration for all jurisdictions, although *Regulation 81-102 respecting Mutual Funds* already imposes conditions on some investment fund managers. This category is intended to ensure that investment fund managers have sufficient proficiency, integrity and solvency (including prescribed capital), to adequately carry out their functions.

The registration requirement will apply as of the Implementation Date to new investment fund managers with a head office in Canada. They will be required to register in the province or territory where their head office is located. Existing investment fund managers with a Canadian head office will have a one-year transition period to register in the jurisdiction where their head office is located and two years to register in other jurisdictions in which they operate. Existing and new investment fund managers without a Canadian head office will have a two-year transition period. You can find more information about these transition periods in Appendix E to this Notice.

We expect to publish a proposal for comment in the next year to explain circumstances under which an investment fund manager that does not have a Canadian head office will need to register, and in what additional provinces and territories an investment fund manager with a head office in Canada will need to register.

Advisers and investment funds

Some CSA members previously took the view that advice to an investment fund "flows through" to the investors in the fund. The effect of this interpretation was that the adviser to a fund was required to register, or be exempted, in that jurisdiction, if any units of the fund were sold there. This applied even if the adviser was located outside the jurisdiction and the fund was established outside the jurisdiction. We have not continued with this interpretation.

Under the Regulation, the adviser to a fund must register as a portfolio manager in the province or territory where the fund is established, regardless of where the fund's investors are located. This is because the fund is the client receiving the advice, and advice is given in both the jurisdiction where the advice is received and where the adviser is located.

If the fund is established outside a jurisdiction where units are sold and the adviser is also located outside the jurisdiction, the advice to the fund is not given in the jurisdiction. In this case, the adviser does not have to register in that jurisdiction.

Firms registered in more than one category

In general, firms carrying on more than one type of activity requiring registration must register in each applicable category. They will have to comply with the requirements of all categories in which they are registered.

However, we have made registering in multiple categories as efficient as possible for firms. For example, capital and insurance requirements are not cumulative, and a firm is required to have only one chief compliance officer, who must meet the most stringent of the proficiency requirements for the firm's various categories of registration.

Non-resident firms

The Regulation does not require registered firms to incorporate in Canada. However, SRO rules may impose this requirement through their own rules on their members.

Non-resident registered firms must provide notice to clients that the firm is not resident in Canada. Restrictions on how non-resident firms may hold client assets also apply.

Québec regulatory framework for mutual fund dealers and scholarship plan dealers

In Québec, firms and individuals in the mutual fund and scholarship plan sectors are subject to a specific regulatory framework:

- Mutual fund dealers registered only in Québec are not required to be members of the MFDA.

- Mutual fund dealers and scholarship plan dealers registered only in Québec are under the direct supervision of the Autorité des marchés financiers.

- Individual representatives of mutual fund dealers and scholarship plan dealers registered in Québec are required to be members of the Chambre de la sécurité financière.

- Mutual fund dealers and scholarship plan dealers registered in Québec and their individual representatives registered in Québec must maintain professional liability insurance.

- Mutual fund dealers and scholarship plan dealers registered in Québec must contribute to the Fonds d'indemnisation des services financiers, which provides financial compensation to investors who are victims of fraudulent tactics or embezzlement committed by these firms or individuals.

- Individuals who are representatives of an investment dealer cannot be employed by a financial institution and carry on business at the same time as a representative in a Québec branch of a financial institution unless they specialize in mutual funds or scholarship plans.

Individual categories

Registered firms must conduct registerable activity through registered individuals. We substantially reduced the number of registration categories for individuals by harmonizing the existing categories for dealing and advising representatives.

We also added three new individual registration categories:

- ultimate designated person (UDP)
- chief compliance officer (CCO)
- associate advising representative

The UDP and CCO are instrumental to an effective compliance system. Depending on the size and structure of the firm, the UDP and CCO may be the same or different people. The categories of UDP and CCO build on previous requirements for certain registration categories and on requirements of the IIROC.

UDP

The UDP is responsible for promoting compliance at the firm and overseeing the effectiveness of the firm's compliance system. The UDP must be the chief executive officer of the firm, sole proprietor or equivalent. There are no proficiency requirements for the UDP.

CCO

The CCO is an operating officer responsible for monitoring and overseeing the firm's compliance system, including establishing policies and procedures, and reporting on the firm's compliance with securities legislation. The CCO reports to the UDP of the firm. There are proficiency requirements for the CCO.

Associate advising representative

This is a new registration category for some provinces and territories. It is primarily intended to be an apprentice category for individuals who are working toward full adviser registration but do not yet meet all the experience or education requirements. It will also accommodate individuals who do not intend to become full advising representatives.

All associate advising representatives must be supervised by an advising representative. Any advice they give must be pre-approved by a designated supervisor.

Individuals registered in more than one category

Individuals carrying on more than one type of activity requiring registration must register in each applicable category and comply with the requirements of each category. However, proficiency requirements are not cumulative: the most stringent of the relevant requirements will apply.

Permitted individuals

Permitted individuals are not registered, but they are subject to review by the regulator as part of our oversight of a firm's fitness for registration. They are therefore required under *Regulation 33-109 respecting Registration Information* (Regulation 33-109) to submit regulatory filings to regulators. The definition of *permitted individual* in Regulation 33-109 has been amended to capture only the "mind and management" of the firm, such as senior executives and directors, or their functional equivalents, who have direct influence or control of the firm.

Individuals who have officer titles but do not influence the overall direction of the firm are no longer permitted individuals. This allows us to focus on the individuals who have direct influence or control of the firm.

c) Exemptions from registration

The exemptions from registration reflect the adoption of the business trigger for dealers. We retained or added exemptions for activities that are subject to another regulatory regime or that we believe do not pose risks to investors or the integrity of the markets.

Dealer exemptions

The table below is a summary of previous exemptions for dealers that have been retained, or exemptions that were previously categories of registration in some provinces, as well as new exemptions.

Retained exemptions	**New exemptions**
• **Exemptions where another regulatory regime applies.** Examples include exemptions for mortgages, personal property security legislation, insurance companies dealing in variable insurance contracts, and Schedule III banks. • **Exemptions based on investor relationship.** Some exemptions have been retained, for example, for reinvestment plans. • **Exemptions based on low relative risk and/or public policy.** Some exemptions have been retained, for example, specified debt. • **Exemption for trades through or to a registered dealer.**	• **Portfolio managers.** A portfolio manager may trade units of its in-house non-prospectus qualified funds with its managed accounts without registering as a dealer. • **International dealers.** Previously, this was a category of registration in Ontario and in Newfoundland and Labrador. This exemption allows non-resident dealers to operate in Canada, with limitations. Non-resident dealers that want to have wider access to Canadian markets should seek the appropriate registration.

Adviser exemptions

Since the registration requirement for advisers was already based on the business trigger, we have retained substantially the same exemption, and added some new exemptions.

Retained exemption	**New exemptions**
• **IIROC discretionary advisers.** This exemption allows designated IIROC members to provide discretionary advice in accordance with IIROC by-laws.	• **Dealers who provide non-discretionary advice.** This exemption allows registered dealers to provide non-discretionary advice that is necessary to

	support their trading activities. • **Generic advice.** This exemption allows firms to provide generic advice, which is not tailored to the needs and circumstances of the recipient. Generic advice is usually delivered through investment newsletters and articles in general circulation newspapers, magazines, television, radio and the Internet. • **International advisers**. Similar to the international dealer exemption, this exemption allows non-resident advisers to operate in Canada, with limitations. Non-resident advisers that seek wider access to Canadian investors must register.

New dealing and advising exemptions

The following sections describe new exemptions that are available to dealers and advisers.

Exemptions relating to permitted clients

Permitted client is a new concept. It is largely a subset of "accredited investor", which is defined in Regulation 45-106. Permitted clients primarily include institutional and corporate investors, and very high net worth individuals.

Registrants that trade with, or advise, permitted clients may be exempt from certain conduct obligations, including the requirement to make a suitability determination and provide relationship disclosure information, if the permitted client has waived these requirements. International dealers and international advisers trading on behalf of, or advising, permitted clients have a conditional exemption from the requirement to register.

Mobility exemption

This exemption allows registrants in a Canadian province or territory to continue dealing with clients who move to a different province or territory, without registering in that other province or territory. Under this exemption, registered individuals can deal with up to five clients and registered firms can deal with up to 10 clients in another province or territory.

d) Fitness for registration

We assess an individual's or firm's fitness for registration at the time of their initial application for registration. The individual or firm must continue to satisfy the fitness criteria to retain their registration status. The fitness requirements are based on three fundamental principles: proficiency, integrity and solvency.

The regulator can impose terms and conditions on a registration at any time if the regulator has concerns about an individual's or firm's fitness for registration. In addition, the regulator or the securities regulatory authority in Québec can suspend a registration at any time.

Proficiency

Proficiency requirements are meant to ensure that registered individuals have a sufficient level of knowledge before providing dealing or advising services to clients, or compliance functions for their firms. The general proficiency principle requires an individual to have the education, training and experience that a reasonable person would consider necessary to competently perform an activity that requires registration. This includes knowledge about the products they sell.

Individuals are required to pass examinations, not courses. However, they are responsible for completing the necessary preparation to pass the required examination. Individuals registered in more than one category are required to meet the highest level of proficiency for those categories.

We have taken into account relevant industry experience in determining whether the passing of an examination is sufficiently recent. In addition, we recognize that individuals can gain relevant experience in various ways.

The proficiency requirements for investment dealers are, and will continue to be, set by IIROC.

Integrity

Registered individuals and firms should conduct themselves with integrity and in an honest manner. The regulator will assess the integrity of firms and individuals through the information that registrants are required to provide and update on registration forms and compliance reviews. In addition, applicants are required to undergo certain background checks, including criminal record and bankruptcy checks.

Solvency

Capital and insurance requirements are designed to ensure that firms are solvent and can meet their obligations on a daily basis.

Capital requirements

All registered firms should be able to demonstrate their ability to manage their business as a going concern. We require firms to maintain a minimum amount of capital to ensure they can meet their financial obligations when they become due.

Insurance requirements

All registered firms must maintain a minimum amount of insurance coverage to protect the firm against property loss. We revised the method of determining the minimum amount of coverage to better reflect the operational risks of a registrant.

Financial reporting

Financial reporting helps regulators to monitor a registered firm’s compliance with ongoing solvency requirements.

All registered firms must deliver audited annual financial statements. In addition, all dealers other than exempt market dealers, and investment fund managers, must deliver unaudited quarterly (interim) statements.

Investment fund managers must also provide a description of any net asset value adjustment made to the investment fund by the investment fund manager during each quarter.

Acquisition of registrants

A registrant must notify the regulator before it acquires a registered firm's securities or assets. In addition, if a registered firm's securities are to be acquired, the registered firm must notify the regulator. This notice gives the regulator the opportunity to address ownership issues that could affect a firm's continued fitness for registration, before transactions are completed.

e) Client relationships

General principles

Dealers and advisers must deal fairly, honestly and in good faith with their clients. Similarly, investment fund managers must exercise the powers and discharge the duties of their office honestly, in good faith and in the best interests of the investment fund.

Know your client (KYC) and suitability

The obligations to "know your client" and to determine whether an investment is suitable are fundamental to investor protection. KYC information can also help us identify violations of trading rules and ensure that trades are completed in accordance with securities laws.

In general, dealers and advisers must collect KYC information and make a suitability determination for all clients. Registrants are not required to collect KYC information necessary to make a suitability determination for permitted clients who have provided a waiver. However, registrants who manage investment portfolios of permitted clients on a discretionary basis must collect this information.

Client relationship model (CRM)

The CSA and the SROs have been working to create harmonized requirements in a number of areas related to a client's relationship with a registrant. This is referred to as the CRM project. It includes:

- relationship disclosure
- conflicts of interest disclosure
- cost and compensation disclosure
- performance reporting

The Regulation contains requirements for relationship and conflicts disclosure.

Relationship disclosure

An outcome-based provision in the Regulation requires a registered firm to provide clients, other than permitted clients, with all information that a reasonable investor would consider important about their relationship with the firm. It also sets out the minimum information that must be delivered to clients.

Conflicts of interest

Firms must identify and respond to existing and potential conflicts of interest by avoiding, controlling or disclosing them. There are also restrictions on certain managed account transactions and limitations on recommendations by registered firms.

Continuing work on CRM

In the next couple of years, we expect to propose amendments to the Regulation that would add requirements or guidance for cost disclosure and performance reporting to clients. Our goal is to ensure that clients of all registered firms, whether or not they are SRO members, will be equally well-provided with clear and complete disclosure of all costs associated with the products and services they receive, and meaningful reporting on how their investments perform.

The SROs have both published for comment proposals in these two areas. If the requirements of the SROs are consistent with the principles we articulate for cost disclosure and performance reporting, we anticipate providing an exemption for SRO members from any detailed provisions that are eventually included in the Regulation.

Referral arrangements

Referral arrangements are regulated nationally for the first time. These requirements are intended to address the abuse, misuse or misinterpretation of referral arrangement relationships involving registrants.

Registrants must disclose to their clients details about all referral arrangements, whether or not they relate to registerable activities or financial services. Referral fees include shared or split commissions. Parties cannot avoid regulatory obligations, including the obligation to assess the suitability of a trade or recommendation for a client, through a referral arrangement.

Complaint handling

The Regulation includes outcome-based requirements for complaint-handling. This is a new requirement outside Québec. All registered dealers and advisers must:

- document, and effectively and fairly respond to each complaint made about any product or service offered by the firm or its representatives, and

- ensure that independent dispute resolution services or mediation services are made available at the firm's expense

We are working with the SROs to harmonize the complaint-handling regime. When this work is completed and the SROs adopt their regime, we will amend the Regulation to provide detailed requirements for firms that are not members of an SRO. We anticipate providing an exemption for SRO members from any detailed provisions that are eventually included in the Regulation.

In Québec, registrants are subject to the complaint handling regime that is provided in the *Securities Act* (Québec).

Account activity reporting

Registered dealers must send confirmations of purchases and sales of securities to their clients. In general, firms other than investment fund managers and scholarship plan dealers must deliver client statements every three months. This information enables clients to monitor services that their firm provides. Client statements must include details of every security transaction during the three months and a summary of the security portfolio at the end of the period.

Client assets

Client assets are protected with requirements for segregating and safekeeping those assets. Client assets held in trust must be separate from the firm's own assets. Non-resident firms that hold client assets are subject to restrictions to ensure the assets are held

appropriately. A registered firm that holds a client's securities under a safekeeping agreement must segregate the securities, identify them appropriately and release them only on client instructions.

We will consider proposing expanded custodial requirements when the Regulation is amended in the future.

Margin

Only IIROC members are permitted to provide margin to clients. The credit risk to a firm's solvency and the risk to clients of over-leveraging are addressed under IIROC rules.

f) Compliance

Compliance is a cornerstone of the registration system. Every registered firm must establish a compliance system. Compliance is a firm-wide responsibility.

A registered firm must have a system of controls and supervision to:

- provide reasonable assurance that the firm and each individual acting on its behalf complies with securities legislation, and

- manage risks in conformity with prudent business practices

While this general compliance obligation is outcome-based, firms also have specific requirements to have a UDP and CCO to oversee and manage the firm's compliance system. We no longer impose specific compliance obligations for branch managers, apart from applicable SRO rules.

Record-keeping

Registered firms must maintain an effective record-keeping system. This includes maintaining records relating to their business activities, financial affairs, client transactions and compliance with securities legislation.

We do not prescribe specific records or methods of record-keeping because we recognize that records and methods that are relevant for one firm may not be relevant for another. However, we provide guidance in the Policy Statement.

5. The registration process

This section outlines key aspects of the registration process.

Applying for registration

An individual or firm that wants to register must file an application form. Under Regulation 33-109 and *Regulation 31-102 respecting National Registration Database* (Regulation 31-102), individuals file the individual application form, Form 33-109F4, on the National Registration Database (NRD). Firms file the application form, Form 33-109F6, as a paper filing, by fax, or scanned in an e-mail.

We significantly changed the individual and firm application forms to make them easier to understand and simpler for applicants to use. Where possible, we have streamlined the information required in the registration forms to avoid unnecessary regulatory burden. We anticipate a simpler, more efficient registration process for both applicants and regulators.

We intend to further review these and other forms related to registration. We may make changes to further improve the registration process and in response to developments in the capital markets.

Terms and conditions on registration

We may grant registration subject to terms and conditions. For example, we may impose terms and conditions to restrict an individual's or firm's activities or require supervision of those activities. When we impose terms and conditions on a registration, the individual or firm has the right to an opportunity to be heard before the regulator.

Registering in more than one province or territory

The requirements and procedures for applying for registration in more than one province or territory are currently set out in the National Registration System (NRS). That system will be replaced with the passport system for registrants when the Regulation comes into force. The passport system allows individuals and firms to register in more than one province or territory by dealing only with the individual's or firm's principal regulator and meeting the requirements of one set of harmonized laws.

Although Ontario is not adopting the passport system, it can be a principal regulator under that system, giving firms and individuals in Ontario access to the capital markets in other jurisdictions by dealing only with the OSC.

A new national policy setting out the process for registration in multiple jurisdictions (Policy Statement 11-204) includes an interface similar to NRS for firms or individuals in passport jurisdictions to register in Ontario.

You can find additional information in the CSA Notice about the passport system, which is also being published today.

Updating registration information

A registered individual or firm must keep up to date the information they provide to us. They must also notify us when, for example:

- the individual ceases employment with a registered firm
- certain information included in their application form changes
- the firm changes its financial year end

Suspending registration

If an individual's or firm's registration is suspended, they remain registered but must stop their registerable activities.

An individual's or firm's registration may be suspended if we have serious concerns about their continued fitness for registration or we determine that it is no longer in the public interest for them to be registered.

Registration will be automatically suspended when:

- an individual no longer works for a registered firm
- the registration of the firm for which the individual works is suspended
- an SRO suspends or revokes the approval of an individual or firm, or
- the regulator accepts a request from a firm to surrender their registration

Reinstating registration

If an individual's or firm's registration has been suspended, we may reinstate their registration if they make an application to us and they comply with the Regulation.

Automatic transfers

Individuals can have their registration automatically transferred from one registered firm to another within 90 days of leaving a sponsoring firm without having to re-apply for registration. They may do this only if they do not change their registration category and the new sponsoring firm is registered in the same category and province or territory as the former sponsoring firm.

The automatic transfer does not apply if the individual was dismissed, or was asked by the firm to resign, following an allegation of criminal activity or a breach of securities legislation or SRO rules.

Revoking registration

If an individual's or firm's registration has been suspended but not reinstated, it will be automatically revoked on the second anniversary of the suspension. "Revoked" means a registration is ended. An individual or firm whose registration has been revoked must submit a new application if they want to be registered again.

6. Transition

On June 12, 2009, we published CSA Staff Notice 31-311 Draft *Regulation 31-103 respecting Registration Requirements and Exemptions - Transition into the new registration regime*. It provides guidance on how the CSA will convert firms and individuals from the existing registration regime to the new registration regime under Regulation 31-103. You can find the Notice in Appendix E of this Notice.

7. SRO rule amendments

SROs have a critical role in setting registration requirements and standards for their members. We are working with both SROs to harmonize the Regulation and SRO rules. SRO rules will be amended as of the Implementation Date to reflect the changes brought about by the new registration regime.

IIROC registration reform rule amendments

IIROC is publishing today amendments to its Dealer Member Rules that are related to the implementation of the CSA's registration reform project. The IIROC rule amendments were approved by the IIROC Board on June 25, 2009 and are subject to final approval by applicable CSA members.

IIROC and its predecessor, the Investment Dealers Association of Canada, have also been involved in the CSA's registration reform project to provide policy recommendations and ensure that there are no inconsistencies between CSA and IIROC regulations regarding registration requirements. The IIROC registration reform related amendments seek to modernize registration related requirements applicable to Dealer Members, moving to the extent reasonable to a more principles-based approach. IIROC has also sought to harmonize as far as possible to Regulation 31-103.

On April 24, 2009, IIROC published for second comment proposed amendments to its Dealer Member Rules to establish substantive requirements developed under the Client Relationship Model (CRM) Project (IIROC Notice 09-0120 – Rules Notice – Request for Comments – Dealer Member Rules – Client Relationship Model).

MFDA registration reform rule amendments

The Mutual Fund Dealers Association of Canada (MFDA) will be publishing amendments to its rules that are related to the implementation of the CSA's registration reform project. The MFDA will issue guidance to its members on the requirements that apply during the interim period between the implementation of the Regulation and the adoption of consequential MFDA rule amendments.

8. Legislative amendments and adoption of the Regulation

Appendix F to this Notice lists the legislative amendments that are being made to legislation in each province and territory so we can implement the Regulation. It also indicates how the Regulation is implemented or adopted in each province or territory.

9. Consequential amendments

Appendix G to this Notice summarizes the changes we are making to regulations and policy statements in your province or territory as a result of implementing the Regulation and the passport system. The amendment instruments mostly reflect new terminology used in, and the relocation of subject matter to, the Regulation. The revocation instruments eliminate instruments and policies because the subject matter is now addressed in the Regulation.

We anticipate publishing a CSA notice of remaining local exemptions at a later date.

10. Where to find more information

The Regulation and related consequential amendments are available on websites of CSA members, including:

www.lautorite.qc.ca
www.albertasecurities.com
www.bcsc.bc.ca
www.gov.ns.ca/nssc
www.nbsc-cvmnb.ca
www.osc.gov.on.ca
www.sfsc.gov.sk.ca

Regulation 33-109, Regulation 31-102 and Regulation 11-102 are also being published today. You can find more information about the amendments made to those instruments in the notices and published instruments.

Questions

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

Sophie Jean
Conseillère en réglementation
Surintendance de la distribution
Autorité des marchés financiers
Tel: 514-395-0337, ext. 4786
Toll-free: 1 877 525-0337
sophie.jean@lautorite.qc.ca

Laura Bliss
Senior Legal Counsel
Capital Markets Regulation
British Columbia Securities Commission
Tel: 604-899-6666
1-800-373-6393
lbliss@bcsc.bc.ca

Christopher Jepson
Senior Legal Counsel
Registrant Regulation
Ontario Securities Commission
Tel: 416-593-2379
cjepson@osc.gov.on.ca

David McKellar
Director, Market Regulation
Alberta Securities Commission
Tel: 403-297-4281
david.mckellar@asc.ca

Dean Murrison
Deputy Director, Legal/Registration
Saskatchewan Financial Services Commission
Tel: 306-787-5879
dean.murrison@gov.sk.ca

July 17, 2009

Appendix A

Summary of comments and responses on the 2008 Proposal

This appendix summarizes the written public comments we received on draft *Regulation 31-103 respecting Registration Requirements* (the Regulation), Policy Statement 31-103 (the Policy Statement) and the proposed forms under *Regulation 33-109 respecting Registration Information* (the NRD Forms) as published on February 29, 2008 (the 2008 Proposal). It also sets out our responses to those comments.

Drafting suggestions

We received a number of drafting comments on the Regulation, the Policy Statement and related forms. While we incorporated many of the suggestions, this document does not include a summary of the drafting changes we made.

Topics outside the scope of the registration reform project

We have not provided responses to the comments we received on topics that are outside the scope of the registration reform project, including:

- developing a documented process or structure to facilitate regulatory harmonization between provinces, securities administrators and self-regulatory organizations (SROs)
- registering financial planners
- allowing salespersons to direct commissions to personal corporations
- adopting a uniform definition of the term “security”
- registration fees
- delegation of the registration function to SROs
- resale restrictions on exempt securities
- harmonizing the regulatory treatment of securities and insurance products, such as segregated funds
- creating a registration category for small firms, with reduced requirements
- the regulatory framework for registration with regard to principal protected notes
- mutual recognition or special exemption regimes for foreign-based entities

Categories of comments and single response

In this document, we have consolidated and summarized the comments and our responses by theme. In general, we have not included comments already addressed in our summary of the comments on the proposal published on February 23, 2007 (the 2007 Proposal).

Responses to comments received on the Regulation

General comments

Harmonization issues

All jurisdictions are adopting the Regulation, which harmonizes the registration requirements. However, several commenters expressed concern about a fractured regulatory environment for registration across Canada, including:

- the business trigger for dealer registration
- the regulation of trading in exempt securities
- the proposed amendments to the *Securities Act* (Ontario)
- the treatment of federally regulated financial institutions

Business trigger for dealer registration

The jurisdictions have consulted each other on any legislative amendments needed to support the Regulation to ensure that it operates the same way in all jurisdictions. The CSA believes that functional harmonization has been reached since anyone who is in the business of trading in securities must register. However, members of the CSA have used different techniques to implement the business trigger for dealer registration, which do not result in any difference in the trigger itself:

- Most jurisdictions are implementing the business trigger for registration by way of legislative amendments. The legislation in those jurisdictions will require a person who is in the business of trading in securities to register as a dealer.

- Manitoba, British Columbia and New Brunswick are exempting from registration anyone who is not in the business of trading in securities.

- In Alberta, the legislation will require a person that is in the business of dealing in securities to register as a dealer. However, the Alberta Securities Commission (ASC) will implement, concurrently with the Regulation, ASC Rule 31-504 *Dealer Registration Requirement - Scope of Application* to specify the scope of application of the dealer registration requirement in the *Securities Act* (Alberta) and to harmonize the registration requirement with the other jurisdictions.

Regulation of trading in exempt securities

The requirements applicable to registered exempt market dealers (EMDs) are the same in all jurisdictions. However, Alberta, British Columbia, Manitoba, Nunavut, Northwest Territories and Yukon (Northwestern Jurisdictions) are providing an exemption from EMD registration that imposes a targeted obligations regime on a person who is in the business of trading in the exempt market and is not otherwise registered with any securities regulatory authority.

A more detailed discussion of this exemption is set out in Appendix D of this Notice. The text of the order setting out the terms and conditions of this exemption is available in a separate notice on the following websites:

www.albertasecurities.com
www.bcsc.bc.ca

Saskatchewan is considering whether it will adopt this exemption and will release a separate notice when it has made its decision.

Securities Act (Ontario)

Commenters expressed concern that moving some of the provisions in the Regulation to the *Securities Act* (Ontario) will detract from the harmonization of the Canadian securities regulatory regime. The Ontario government has decided to insert a number of provisions from the Regulation into the *Securities Act* (Ontario). As a result, certain provisions of the Regulation are stated not to apply in Ontario and explanatory notes have been inserted in the Regulation. However, the provisions that will be adopted in the *Securities Act* (Ontario) are not materially different from those that appear in the Regulation.

Federally regulated financial institutions

It has been suggested that a federally regulated financial institution should be exempted from dealer, adviser, and investment fund manager registration. The securities-related activities of federally regulated financial institutions are not separately addressed in the Regulation. The CSA is maintaining the status quo on the requirements applicable to these institutions.

Definition of "permitted client"

We received several comments on the proposed definition of "permitted client." The commenters asked us to expand the definition of "permitted clients" by including certain entities. We also received comments on the monetary thresholds for shareholders' equity of corporations and for financial assets of individuals.

We agree with the commenters on some but not all of their comments and have amended the definition of "permitted client" to include:

- investment funds that are managed by a person registered as an investment fund manager under the securities legislation of a jurisdiction of Canada
- wholly-owned subsidiary companies of Canadian pension plans
- corporations having net assets of least $25 million (from $100 million of shareholders' equity in the 2008 Proposal)
- non-incorporated companies, partnerships and trusts

Further, we have designated as permitted clients other types of vehicles that other permitted clients may use for their investing, as long as no non-permitted client also uses that vehicle for investing.

We believe that registered charities that do not have an "eligibility adviser", family trusts and individuals with less than $5 million in financial assets should have the benefit of a suitability determination. They have therefore not been included in the "permitted clients" definition.

We have also made selected conforming changes to elements of the definition of "permitted client" that derive from the definition of "accredited investor" in *Regulation 45-106 respecting Prospectus and Registration Exemptions*.

Categories of registration - firms

Investment fund manager

We were asked to provide clarification on some of the circumstances in which registration in the investment fund manager (IFM) category is required:

- Registered portfolio managers using their own pooled funds (which we now refer to as *non-prospectus qualified investment funds*) as portfolio management tools are required to register in the IFM category since the regulatory concerns relevant to IFM registration apply to these activities. Portfolio managers are therefore not exempt from IFM registration. However, we have eliminated the cumulative capital requirement if the firm is registered as both a portfolio manager and IFM.

- A general partner of a limited partnership investment vehicle acting in the capacity of investment fund manager of a pooled investment vehicle may be required to register in the IFM category, but only if the pooled investment vehicle is organized and invests in a manner that falls within the definition of investment fund in securities legislation. We have added in the Policy Statement discussion of IFMs of limited partnerships.

- We have provided a temporary two-year exemption in the Regulation for IFMs whose head office is located outside Canada. See the Notice for a discussion of the CSA's ongoing policy development for foreign IFMs.

- For IFMs with a head office in Canada, we have provided a temporary two-year exemption in the Regulation from registering in other Canadian jurisdictions as long as they are registered in the jurisdiction where their head office is located.

- We have provided a specific exemption from IFM registration for capital accumulation plans in the Regulation. It will be available to the extent the plan is only required to be registered as an IFM because the investment fund is an investment option in a capital accumulation plan. The CSA is reviewing its policy approach with regard to IFM registration for capital accumulation plans. The CSA may therefore amend or revoke this exemption.

Exempt market dealer

KYC and suitability requirements

We received several comment letters stating that EMDs should be exempt from the know your client (KYC) and suitability requirements, and that clients should be permitted to waive KYC and suitability.

The CSA believes that KYC and suitability are fundamental requirements of the registration regime. However, the extent of KYC information that will be sufficient for a registrant to determine suitability will depend on the circumstances of the client, the transaction, the client's relationship with the registrant and the registrant's business model. We have amended the Policy Statement to include more detailed guidance on this issue.

Permitted clients can waive suitability determinations where the registrant is not providing discretionary portfolio management.

We received numerous letters from individuals indicating that investors purchasing under the offering memorandum exemption would resist providing EMDs with information that is necessary to assess suitability. The commenters perceived this as an invasion of privacy. As noted above, an exemption from the EMD registration requirement is available on certain terms and conditions in the Northwestern Jurisdictions.

Proprietary pooled funds and location of client assets

One commenter expressed the view that fund issuers who are not portfolio managers that sell their own proprietary pooled funds pursuant to a prospectus exemption should not have to register as an EMD, provided that client assets are held by an independent custodian. Our view is that the location of client assets is not a valid policy rationale for requiring or not requiring registration.

Foreign EMDs

One commenter expressed the opinion that foreign EMDs that are subject to regulation in their home jurisdiction should be exempt from the capital, insurance, chief compliance officer (CCO), ultimate designated person (UDP), relationship disclosure, suitability, margin, and borrowed money disclosure provisions in the Regulation, and that the CSA should not impose "redundant" requirements on exempt market firms that are registered in foreign jurisdictions. The commenter also stated that the CSA should consider a mutual recognition system for these firms.

We believe that the location of the EMD is not in itself a valid policy rationale for requiring or not requiring registration. A mutual recognition system is beyond the scope of this project.

Sale of mutual fund securities

We received comments that EMDs should not be permitted to sell prospectus qualified mutual funds without mutual fund dealer registration. The EMD category contemplates sales of a wide range of securities to qualified purchasers and we can see no investor protection reason why this should not include sales of prospectus qualified mutual funds. We will nonetheless monitor the situation in case regulatory concerns arise.

Mutual fund dealer

We received comments to the effect that the CSA should permit mutual fund dealers that are members of the Mutual Fund Dealers Association of Canada (MFDA) to sell exempt securities, including non-prospectus qualified mutual funds, without requiring registration as an EMD.

The definition of mutual fund does include prospectus-exempt mutual funds and as such, mutual fund dealers are already permitted to trade in these pooled funds without the requirement to register as an EMD. There are also certain exempt securities that do not trigger the dealer registration requirement (e.g., specified debt) and can therefore be sold by mutual fund dealers that are not also registered as EMDs.

Some commenters suggested that mutual fund dealers should be permitted to sell exchange traded funds (ETFs) that do not fit within the definition of "mutual fund". We disagree. Such ETFs are fundamentally different from conventional mutual funds. There are specific market regulation issues pertaining to ETFs that are distinct from those pertaining to retail mutual fund distribution activity.

Advisers and investment funds

Some CSA members previously took the view that advice to an investment fund "flows through" to the investors in the fund. The effect of this interpretation was that the adviser to a fund must register, or be exempted, in that jurisdiction, if any units of the fund are sold there. This applies even if the adviser is located outside the jurisdiction and the fund is established outside the jurisdiction. We have not continued with this interpretation.

Under the Regulation, the adviser to a fund that is constituted in a jurisdiction must be a registered portfolio manager in that jurisdiction, regardless of where the fund's investors are located. This is because the fund is the client receiving the advice, so advice is given in the jurisdiction where the advice is received and where the adviser is located.

If the fund is established outside a jurisdiction where units are sold and the adviser is also located outside the jurisdiction, the advice to the fund is not given in the jurisdiction. In this case, the adviser does not have to register in that jurisdiction.

Categories of registration - individuals

Ultimate designated person

We received comments that role of UDP is overly broad as stated in the Regulation and Policy Statement, and should be made consistent with IIROC Rule 38, which provides that that the UDP is responsible for the conduct of the firm and the supervision of its employees. Further, it was suggested that the definition of UDP should be expanded to allow firms to designate this function to any of the senior officers permitted under IIROC By-law 1 (CEO, President, COO, CFO, or such other officer that has been approved by IIROC).

We have not changed the definition of UDP or the description of the role of the UDP. We remain convinced that the importance of the registered firm's compliance system and the UDP's role within it is such that only the most senior officer is appropriate to fill that role. We have clarified the UDP-CCO distinction in the Policy Statement discussion. IIROC Rule 38 will be amended to conform to the Regulation.

Another commenter suggested that the firm should have the ability to designate more than one UDP. We disagree. The status and the role of the UDP preclude that position being filled by more than one individual.

Chief compliance officer

We received comments stating that certain circumstances could warrant the designation of several CCOs, such as for large registrants that have registerable activities carried out through various operating divisions. We will consider applications for exemptions on a case-by-case basis for these types of arrangements, but we have not changed the Regulation. These arrangements may be appropriate only in limited circumstances.

Associate advising representative

We disagree with the comment stating that advisers should not be required to notify the regulator when the adviser designates an associate advising representative. The regulators need to be in a position to determine that the conditions that apply to the activities of the associate advising representative are met. An adviser must always pre-approve the advice given by an associate advising representative. The form of the pre-approval will depend on the circumstances, such as the associate advising representative's level of experience.

Exceptions for members of self regulatory organizations (SROs)

In response to comments requesting that the Regulation comprise a broader list of requirements that would not apply to SRO members, we have made changes to include in the exemption the subordination agreement notice requirement, global financial institution bonds and the detailed requirements of relationship disclosure information.

However, we have not included an exemption from the following requirements:

- Complaint handling and referral arrangements because there is substantial ongoing harmonization of the SRO Rules and the Regulation

- the conflicts of interest provisions because these are outcome-based requirements that apply to registrants in all categories, whether or not they are SRO members

- the requirements relating to statements of account and portfolio because these set out the frequency of statement delivery and apply to registrants in all categories, including SRO members

We have deleted the reference to the dispute resolution service (sub-paragraph (p) of section 3.3(1) of the 2008 Proposal) since this was only intended as a technical exception for Québec registrants.

Solvency and financial reporting requirements

General comments on calculation of excess working capital

Where assets are held

We received a comment that where a third-party custodian holds client assets, there should be no working capital or insurance requirements. We disagree. Where the client assets are held, whether or not at a third-party custodian, is not a sufficient policy rationale for exempting a firm from the capital or insurance requirement. The solvency requirements are designed not only to protect client assets, but also to ensure a firm has the financial capacity to meet its day-to-day operations.

Margin rules and market risk

One commenter believed that using the margin rules of the Investment Industry Regulatory Organization of Canada (IIROC) does not necessarily provide an accurate assessment of market risk and that the proposed 50% margin rate for mutual funds is too high in respect of mutual funds that only invest in bonds.

We disagree. The calculation of market risk is based on the nature of the underlying security using the margin rates that are common to the investment industry today. We have updated the margin rates in schedule 1 to Form 31-103F1 *Calculation of excess working capital*.

A commenter stated that registrants that prepare financial statements in accordance with GAAP should not have to calculate market risk (line 9) in accordance with the principles set out in Schedule 1. We disagree. Market risk is designed to capture any adverse movement in securities prices, and the fact that a financial statement is prepared in accordance with Canadian GAAP may not necessarily reflect market risk.

Long-term related party debt

We received a suggestion that registrants should not have to add back 100% of long-term debt owed to a related party (line 5) of Form 31-103F1 if the related party debt is not due in the next 12 months. We disagree. The calculation of excess working capital is done on a conservative basis.

Long-term related party debt is treated as a current liability because it is easier for a related party to change the terms of repayment if the registrant is experiencing financial difficulty. If a registrant executes a subordination agreement, the treatment of the related party debt changes.

Guarantees

A commenter expressed the view that where a registrant guarantees the debt of an affiliated registrant, the calculation should not include both the debt for one registrant and the guarantee of that debt by the other registrant. Our response is that the calculation of excess working capital is done on a conservative basis. This is a conservative adjustment in the capital formula, as a registrant may be called at any time to make a payment related to a guarantee.

The capital formula does not differentiate between short-term or long-term guarantees. If the amount of the guarantee has been included in the balance sheet as a current liability, it does not need to be included again on line 11 of Form 31-103F1.

We have simplified the form of the subordination agreement in Appendix B to the Regulation.

Application of solvency and financial reporting requirements to IFMs

NAV corrections and adjustments

It was suggested that a materiality threshold should be in place for net asset value (NAV) corrections and adjustments, which is currently 50 basis points or $50. Otherwise, the reporting could become an administrative burden and the costs of reporting may be onerous.

Our response is that a firm is required to have policies and procedures in place to cover all the major functional areas of its business. This includes dealing with NAV adjustments, should they occur.

A firm may use the IFIC Bulletin 22 – *Correcting Portfolio NAV Errors* or establish a more stringent policy which would include a materiality threshold.

One commenter considered the requirement to report NAV adjustments on a quarterly basis to be unnecessary and unduly onerous. We disagree and have added additional guidance in the Policy Statement on how to comply with the NAV reporting requirements.

Capital requirement for IFMs

A commenter suggested that IFMs, particularly those in investment fund complexes with various fund families, should be permitted to either take on additional insurance to satisfy regulatory concerns or use a graduated capital requirement based on the amount of assets invested. Alternatively, the CSA should require IFMs to hold a minimum $500,000 investment in their funds until they reach a threshold of assets under management.

Our response is that it is a basic requirement in Canada and in similar jurisdictions that registrants should be able to demonstrate that they are adequately capitalized and financially solvent. The prescribed amounts in the proposed Regulation are minimums and fund managers may determine that their business model requires a greater amount to adequately manage their business.

Insurance requirements for IFMs

One commenter advocated that the insurance requirement should be limited to 1% of assets under management and that small fund managers who use independent custodians should be exempt from the insurance requirement.

We disagree. Insurance requirements are meant to protect the firm against property loss. The amount of insurance required for fund managers is formula-based and is linked to assets under management. We believe these requirements are appropriate in view of the activities undertaken by IFMs. Further, we believe there are other activities carried on by the fund manager that require insurance coverage. The Financial Institution Bond (FIB) Clauses A to E provide coverage for various types of losses.

Financial reporting requirement for IFMs

A commenter stated that IFMs that do not handle, hold or have access to client assets should be exempt from the requirement to file quarterly financial statements. However, the CSA believes that a fund manager, as trustee, has access to client assets.

Client funds are continually "in transit" to and from the custodian as new investments are made or existing investments are redeemed. We therefore do not agree with the comment.

A commenter considered that the quarterly reporting requirements for IFMs, which do not apply to advisers, are excessive. We disagree. The operations of IFMs and advisers are different. An IFM has the responsibilities associated with fund accounting, transfer agency and trust accounting and must ensure that these functions are being properly performed (including when they have outsourced these duties).

Trade confirmations

It was suggested that in cases where securities in client name are maintained by the client with the IFM, the client may communicate directly with the IFM in order to redeem the securities. In such cases, the client would not receive a trade confirmation since that requirement would not apply to the IFM, which does not seem appropriate. We agree and have amended the Regulation to provide that the IFM will be required to send trade confirmations in such cases.

Application of solvency and financial reporting requirements to advisers

Capital requirement

It was suggested that investments in an adviser's pooled funds should not be subject to a reduction for market risk. Alternatively, they should be subject to a 50% reduction provided the investment is in a fund managed by an IFM, there are no restrictions on the ability of the IFM to redeem its investment, and the investment can be redeemed or sold within two months of the date of the redemption notice. This would be consistent with mutual funds offered by prospectus. Alternatively, advisers who use independent custodians and whose investment fund assets comprise less than 25% of assets under management should have a $25,000 minimum capital requirement.

We disagree. We believe the proposed capital requirement for advisers is appropriate. The calculation of market risk is based on the nature of the underlying security using the margin rates that are common to the investment industry today. Mutual funds offered by prospectus have a lower market risk than pooled funds because they are regulated by *Regulation 81-102 respecting Mutual Funds*.

Insurance requirement

One commenter believed that the new insurance requirement for advisers will diminish investment returns for investors. We disagree. Insurance requirements are meant to protect firm assets. The amount of insurance required is formula based. If an adviser does not hold or have access to client assets, the amount of insurance required is a single loss limit of $50,000, which is not an increase in some jurisdictions.

Application of solvency and financial reporting requirements to EMDs

According to some commenters, EMDs that do not hold or have access to client assets should be exempt from the solvency and insurance requirements in the Regulation. We revised many of the requirements applicable to EMDs to eliminate the distinction between dealers that handle, hold, or have access to client assets and those that do not, which was introduced in the 2008 Proposal.

On reconsideration, we are not persuaded that this distinction is meaningful. The requirements applicable to EMDs will apply equally to all registrants in that category, consistent with the 2007 Proposal.

Proficiency requirements

Proficiency principle

We were asked to further explain the proficiency principle. The CSA views the proficiencies specified in the Regulation as baseline requirements for registration, which apply to all registrants. Education and experience are ongoing requirements. We have provided clarification on the proficiency principle in the Policy Statement, in which we state that registered firms should ensure that registered individuals acting on their behalf meet the proficiency requirement at all times.

We also note in the Policy Statement that firms should perform their own analysis of all products they recommend to clients and provide product training to ensure their registered representatives have a sufficient understanding of the products and their risks to meet their suitability obligations. Similarly, registered individuals should have a thorough understanding of a product before they recommend it to a client.

Examination-based model

The CSA has maintained its decision to use an examination-based model to establish the baseline level of knowledge necessary to register as a representative. The CSA believes that passing examinations is sufficient to demonstrate knowledge, and that representatives should be free to follow the courses or other educational options to assist them in passing the examinations.

General comments on required examinations

The CSA will assess new examinations that are submitted for approval. We will review the Regulation on a periodic basis and codify the recognition of additional examinations as they are approved by the CSA.

Time limits for applying for registration after completing examinations

We received several comments to the effect that the 36-month deadline to apply for registration after completing examinations should be removed entirely in situations where the individual has been continuously employed in the securities industry.

The Regulation now provides that the 36-month deadline does not apply if the individual was registered in the same category in a jurisdiction of Canada or if the individual gained 12 months of relevant securities industry experience during the 36-month period before the date the individual applied for registration.

Proficiency exemptions

We received comments on what constitutes adequate experience and whether we should codify relief in this regard. In our view, it is not possible to determine and codify all of the possibilities relative to relevant experience in the Regulation. This forms part of the review of each individual's fitness for registration.

As stated in the Policy Statement, we will consider granting an exemption from any of the prescribed proficiency requirements if we are satisfied that an individual has qualifications or relevant experience that are equivalent to, or more appropriate in the circumstances than, those proficiency requirements. We will make every effort to ensure consistency and transparency in granting or denying exemptions.

Representatives of EMDs

We received several comments on the requirement that EMD representatives pass the Canadian Securities Course (CSC) examination. We have added the IFSE Institute *Exempt Market Products Exam* as an alternative to the CSC examination for these

representatives, with an extended transition period of 24 months for passing either of these examinations. We will assess new examinations submitted to us for approval and will amend the Regulation if and when we approve new examinations.

Representatives of mutual fund dealers

We have been asked to further explain the inclusion in the Regulation of the proficiency requirements for representatives of mutual fund dealers. The proficiency requirements in the Regulation and those of the MFDA are identical for mutual fund dealer representatives. We have included them in the Regulation because the registration of these representatives has not been delegated to the MFDA, and the MFDA does not review proficiency for dealing representatives of mutual fund dealers.

Delegation of registration duties by the CSA to the SROs is outside the scope of this project. Further, the MFDA is not recognized in Québec and some mutual fund dealers in other Canadian jurisdictions have been exempted from MFDA membership.

IFM CCO

The 2008 Proposal provided that the IFM CCO must have worked for a registered IFM for a number of consecutive years (either three or five). We have removed the qualifier "consecutive" with regard to work experience of IFM CCOs, since this is not included in the requirement for portfolio managers. We have also deleted the word "registered" in the requirement that the CCO have prior experience at an IFM, since IFMs are not currently required to be registered.

We were asked to make the proficiency requirements identical for both the portfolio manager CCO and the investment fund manager CCO. The functions of the portfolio manager CCO and the IFM CCO are different, and the proficiency requirements, including where the CCO has acquired experience, are therefore different. We have, however, harmonized the requirements to the fullest extent possible.

KYC and suitability

It was suggested that the CSA should prescribe a standard KYC form, drafted in consultation with market participants. However, the Regulation does not prescribe any forms that registrants must use in order to satisfy the KYC and suitability provisions. The requirements are outcome-based and intended to be flexible. The amount of information collected and the manner in which the information is collected will vary depending on the circumstances of each case.

The proposed KYC provision requires registrants to ascertain if the client is an insider of an issuer (and not only "reporting issuers"). One commenter stated that it was not clear what a registrant is to do with "non-reporting" insider information. We have revised the Regulation to provide that a registrant must take reasonable steps to ascertain whether a client is an insider of a reporting issuer or any other issuer whose securities are publicly traded, and we have added guidance in the Policy Statement regarding this aspect of the KYC obligation.

One commenter asked us to explain to what extent a registrant must determine a client's reputation. In this context, the word "reputation" should be interpreted according to the normal sense of the word. The registrant must make all reasonable inquiries necessary to resolve concerns about a client, including making a reasonable effort to determine, for example, the nature of the client's business.

Relationship disclosure information

We received several comments on the relationship disclosure information provisions and confirm that they will not apply to managed accounts of permitted clients

who waive the relationship disclosure requirement, regardless of the firm's registration category.

We are working with the SROs to harmonize the Regulation with the SROs' client relationship model (CRM). At this stage of the registration reform project, the CSA will retain an outcome-based framework in the Regulation to accommodate the adoption of CRM by the SROs.

Complaint handling

Complaint handling provisions and guidance

We received several comments on the complaint handling provisions in the Regulation. We are working with the SROs to harmonize the complaint handling regime with a view to implementing substantially identical provisions, both in the Regulation and in the SRO rules and policies.

At this stage of the registration reform project, the CSA has retained an outcome-based complaint handling requirement in the Regulation but we provide no detailed guidance in the Policy Statement. When this harmonization work is completed, the CSA will prepare amendments to the Regulation and the Policy Statement giving effect to the harmonized framework for handling complaints for non-SRO members. We have deleted the portions of the 2008 Proposal that are not harmonized with the complaint handling framework.

We also received comments asking us to clarify whether clients must exhaust all internal complaint handling mechanisms before pursuing independent dispute resolution. The CSA will address this issue in its development of the harmonized framework for complaint handling.

In response to a request to clarify the complaint handling requirement for firms registered in Québec, we note that these firms are subject to the same complaint handling regime, and are not exempt from the requirements provided in the *Securities Act* (Québec). The fact that they remain subject to the provisions of the Act is reflected in the Regulation.

Dispute resolution service

A commenter suggested that registrants and their clients should be permitted to choose whether or not to participate in a dispute resolution service. We have redrafted the provision to clarify our intention that registrants can use the dispute resolution service provider of their choice. They are not required to "participate" in a specific dispute resolution program. However, a registrant must provide clients with independent dispute resolution or mediation services at the registrant's expense.

Record-keeping

A commenter was of the opinion that the records that firms are expected to retain should be based on a prescriptive list. We have moved away from prescriptive lists to an outcome-based approach. We expect registrants to maintain accurate records of any element of communication with the client that may have an impact on the client's account, including suitability and relationship information, which may evolve and change over time.

We have not prescribed specific records or methods of record-keeping because we recognize that records and methods that are relevant for one firm may not be relevant for another. However, we have provided guidance in the Policy Statement.

It was suggested that we should eliminate the distinction between activity and relationship records. We agree and have eliminated that distinction.

A commenter stated that maintaining relationship records for seven years from the date the client ceases to be a client could be onerous and costly to firms. As stated above, we have eliminated the distinction between activity and relationship records and as a result, we believe the technological costs for maintaining the records prescribed in the Regulation are not excessive.

As requested by commenters, we have provided additional guidance in the Policy Statement on record keeping in respect of e-mail, electronic and other forms of communication.

Client account reporting

Trade confirmations

A commenter recommended that the Regulation be amended to create an exemption for confirmations of trades for or on behalf of another foreign or domestic registrant and institutional clients, when the participant and client are using an automated trade matching system that complies with Regulation 24-101. We agree and have made the change.

Quarterly (interim) statements of account

A commenter believed that the requirement for quarterly statements of account (and monthly statements on the client's request) is a new requirement that will impose significant additional burdens on dealers, primarily mutual fund dealers and scholarship plan dealers that currently have an annual reporting requirement and have provided their clients with electronic, password protected access to their accounts on a real-time basis. It was suggested that the additional costs to dealers outweigh the benefits to clients and that statements of account should be sent annually, not quarterly.

We agree as far as scholarship plan dealers are concerned, given their business model. They may send annual statements of accounts only. Mutual fund dealers must send quarterly (interim) statements of account, but we have provided a 24-month transition period to meet the new requirement.

A commenter expressed the view that it is unnecessary to require an adviser to provide monthly statements of portfolio in instances where clients have consented to having their dealer send written trade confirmations to the adviser. However, we believe that where a client does not receive a trade confirmation, it is even more important for that client to receive a statement of portfolio. This position is consistent with multijurisdictional relief that is granted on a standard basis.

Conflicts of interest

We received several comments on the conflicts of interest provisions of the Regulation. We have made changes to the 2008 Proposal on conflicts in response to comments, in some cases to return to proposals in the 2007 Proposal, and in some cases for clarification.

The objectives of the changes are to ensure that:

- clients receive meaningful disclosure about conflicts of interest
- unnecessary regulatory burdens are not imposed on registrants

More specifically, our responses to the comments are as follows:

- The definition of conflicts of interest should be included in the Regulation and should be consistent with that of the IDA. We disagree, since this provision of the Regulation is outcome-based and is not inconsistent with IIROC's requirements.

- The CSA should add a materiality threshold to the conflicts of interest provisions. We agree and have amended the Regulation.

- The CSA should adopt a more prescriptive approach to conflicts of interest. The CSA believes that the blended approach of both principles and specific requirements is appropriate and will therefore remain. An outcome-based approach allows firms to determine how they will handle conflicts of interest according to their business model, size and types of clients. Prescriptive requirements are also necessary to indicate how certain conflicts situations must be dealt with.

- The CSA should expand the definition of "affiliate" to include trusts and limited partnerships, or add a reference to "associate" to ensure the Regulation applies to all types of investment funds. We agree and have made the change within the confines of this section. "Affiliate" is not defined in all jurisdictions, and changing its meaning is beyond the scope of this project.

- The CSA should revise the provisions relating to prohibitions on managed account transactions, the prohibition on cross-trades and inter-fund trades, and the issuer disclosure statement provision. We have revised these provisions. See Appendix B of this Notice for a full description of the changes made.

- The 10% threshold for change of control pre-approval is too restrictive and should be raised to 25%. We disagree. Based on our experience with the existing notice provisions and the structure of most registrants, we believe the threshold is appropriate.

Referral arrangements

In response to a comment that the definition of referral arrangements is too broad, we note that this definition is intended by the CSA to be broad. We have added guidance in the Policy Statement on the purpose of the referral arrangement provisions, which is to deal with the abuse, misuse or misinterpretation of referral arrangement relationships involving registrants. We also describe in the Policy Statement the main areas that have been problematic.

One commenter believed that the requirements relating to referral arrangements among affiliates should be removed. Another commenter stated that the CSA should provide a simplified regime for referral arrangements within large financial groups and that only the method of determining the commission should be included. We disagree. Referral arrangements between affiliates must also be disclosed to clients. However, referrals within the same firm are not subject to these provisions because the firm would need to consider their conflicts of interest obligations.

One commenter expressed the view that referral arrangements should only be allowed between firms or individuals who are regulated by the CSA or the SROs. Our response is that situations where only one of the parties to a referral is a registrant have raised regulatory concerns, and we intend for all referral arrangements that involve a registrant be regulated.

It was suggested that the Regulation should outline how the CSA will take steps to ensure that investment products are appropriately vetted to prevent unsuitable and fraudulent products from entering the market before they are inadvertently sold or referred by financial advisors. Our response is that as part of a registrant's KYC and suitability obligations, a registrant should fully understand the product recommended to clients prior to performing an assessment of suitability.

We received a recommendation that only material changes to referral arrangements be communicated to affected clients. However, we believe that all of the items that must be disclosed to clients are sufficiently important that any change in this information warrants disclosure to clients.

Exemptions

Location of exemptions

We agree with the comment that all registration exemptions should be located in one instrument and have moved most registration exemptions into the Regulation.

New exemption for banks, hedge funds, and pension funds

A commenter suggested that those who conduct their securities trading business through a registered dealer should not be required to themselves register as a dealer consistent with current securities laws. We have restored this exemption in the Regulation.

Private investment clubs

One commenter suggested that the current dealer registration exemption for investment funds operating as private investment clubs should be added to the Regulation. We agree and have done so.

Dealer registration exemption for portfolio managers of pooled funds

We have not extended the dealer registration exemption for portfolio managers of non-prospectus qualified funds to funds of affiliates or sales outside of fully managed accounts. This exemption is intentionally narrow, as we believe dealer registration is appropriate in most other situations. Discretionary relief will be considered on a case-by-case basis for cases that fall outside this exemption. This might include the integrated operations of certain affiliated groups.

Registration exemption for registered mortgage brokers who trade in syndicated mortgages (Alberta)

A commenter stated that Alberta should not have removed the registration exemption for registered mortgage brokers who trade in syndicated mortgages and that the Real Estate Council of Alberta (RECA) should regulate arm's length syndicated mortgages.

Our response is that Alberta Securities Commission (ASC) staff became aware that the use of the mortgages exemption had expanded beyond the scope of the original policy rationale underlying this exemption. As a result, ASC staff were concerned that the distribution of securities in connection with syndicated mortgages was, essentially, unregulated.

Mortgage brokers who trade in syndicated mortgages currently have, and will continue to have, access to a variety of prospectus exemptions, such as the accredited investor, offering memorandum, and minimum amount exemptions, under which they may distribute debt obligations that are associated with syndicated mortgages.

Mobility exemption

One commenter asserted that the mobility exemption is too onerous and does not reflect the realities of a more mobile Canadian population. Specifically, limiting the number of eligible clients to 10 (for firms) and five (for individuals) is unreasonable. We disagree. Once a person has more than a minimal presence in a local jurisdiction, the person should register in that jurisdiction.

International dealers and advisers

One commenter indicated that the definition of international dealer set out in the Regulation should include international dealers that are exempt from registration in their home jurisdiction. We disagree. For dealer activities, the CSA believes that registration in the home jurisdiction is an important feature of investor protection.

We received a comment to the effect that an international dealer should be permitted to trade in any security with an investment dealer without further restriction. We disagree. International dealers remain restricted from trading in securities of Canadian issuers. We have not, as suggested by the commenter, limited the international dealer restrictions to trades on Canadian marketplaces.

We also disagree with comments to the effect that the CSA should permit international dealers to trade in interlisted securities on non-Canadian markets. We disagree with these suggestions because they are not consistent with the policy of restricting international dealers from trading in securities of Canadian issuers.

Another commenter suggested that international advisers should be permitted to provide investment management services to a *de minimus* number of clients who would not fall within the definition of "permitted client", analogous to the mobility exemption. We disagree. The sophistication and financial resources of permitted clients is an important basis for the exemption for international advisers.

Automatic transfers

In response to a comment we received, we confirm that the automatic transfer process is only available where a registrant transfers in the same category, the new sponsoring firm is registered in the same category and in the same jurisdiction as the previous firm.

Subject to certain conditions set out in *Regulation 33-109 respecting Registration Information*, an individual's registration may be automatically reinstated if they:

- transfer from one sponsoring firm to another registered firm
- join the new sponsoring firm within 90 days of leaving registered employment
- seek registration in the same category as the one previously held, and complete and file Form 33-109F7 *Reinstatement of Registered Individuals and Permitted Individuals*

This allows an individual to engage in activities requiring registration from their first day with the new sponsoring firm. There are some restrictions on automatic transfers where an individual's conduct might cause regulatory concerns.

Transition

See CSA Staff Notice 31-311 Draft *Regulation 31-103 respecting Registration Requirements and Exemptions: Transition into the new registration regime* for a detailed description of transition periods. We have generally lengthened the transition periods and have included in the Regulation a provision on the protection of existing relief.

Responses to comments received on Policy Statement 31-103

Business trigger factors

We received comments to the effect that the business trigger guidance in the Policy Statement is inconsistent with the *Securities Act* (Ontario) amendments that were proposed in April 2008. The business trigger factors have been removed from the amendments to the *Securities Act* (Ontario).

We have amended the guidance on the business trigger factors, as follows:

Acting as an "intermediary" and acting as a "market maker"

We have clarified the guidance, which now indicates that we will not automatically assume that a person acting in either of those capacities is necessarily in the business of trading in securities. The totality of a person's activities will be considered in each case. We have not expanded on the "market maker" concept since this is a generally understood term in the securities industry.

Venture capital and private equity

We were asked to provide more guidance concerning venture capital and private equity in the Policy Statement. We have substantially revised the discussion of venture capital in the business trigger part of the Policy Statement. There are, however, a wide variety of venture capital and private equity business models, so we anticipate providing supplemental guidance at a later date.

Asset allocation activities

We were asked to re-insert the original asset allocation discussion in section 2.5 of the first draft of the Policy Statement, in order to provide clarity to the industry on whether pure asset allocation is considered generic advice. That discussion was removed in the 2008 Proposal following a review by CSA, which had concluded that financial planning activities are outside the scope of the registration reform project.

We maintain that position. Whether pure asset allocation activities are to be considered generic, non- specific advice, will have to be considered on a case-by-case basis by the person performing the asset allocation activity.

IFM marketing and wholesaling activities

We were asked to confirm whether dealer registration should be required where marketing and wholesaling activities are limited to funds that are distributed through a third-party dealer, or funds that are managed by an affiliate of the IFM. We have clarified the guidance in the Policy Statement.

Guidance on risk management

One commenter indicated that the Policy Statement contains guidance on assuring compliance with securities law but contains no guidance on managing business risks, and believes that we should add more guidance, including a description of the types of risks that a firm should consider and a discussion of "prudent business practices."

We have added some guidance in the Policy Statement but caution each registrant that it must identify its own specific risks and put in place monitoring and reporting procedures to address those risks.

Outsourcing

A commenter believed that the statement that registered firms are "fully liable and accountable for all functions that they outsource to a service provider" is inappropriate and imposes a standard of liability that does not exist in the marketplace today. We disagree. A registrant that chooses to outsource to a service provider should take appropriate measures to ensure that the quality of service provided meets the requirements with which the registrant must comply.

Responses to comments received on NRD FORMS

Form 33-109F1 – Notice of termination

Some commenters asked us to clarify the two-step filing procedure for firms filing this form, to remove subjective elements from the questions in Part E and to confirm answering those questions will not contravene Canadian privacy legislation. Our response is as follows:

- The first four parts of the form must be answered within seven days of the effective date of termination, and the questions in Part E (now item 5), if applicable, must be answered within 40 days.

- A single submission on NRD can be made to complete the entire form if all details are available within the initial seven-day period.

- Alternatively, to answer the questions in Part E at a later date, a filer will update the initial filing by making an NRD submission to be renamed "Update / Correct Termination Information."

- In jurisdictions that charge late filing fees, those fees could apply to late filings for both seven-day and 40-day deadlines.

- In Part E, we agreed with some comments by revising questions 3 and 8 to make them less subjective and we deleted proposed question 10.

When individuals apply for registration, they provide consent to the collection by the regulator of personal information, including "employment records" (see item 20 of Form 33-109F4). Accordingly, the provision and collection of this information does not contravene Canadian privacy legislation.

Form 33-109F2 – Change or surrender of individual category

A commenter suggested that the form should include a field for the effective date of the change or surrender. We disagree. The effective date is the date the regulator approves the application for change or surrender of categories and, therefore, we do not require an effective date field for this form.

Form 33-109F3 – Business locations other than head office

In response to a comment, we have added a Branch Transit/Cost Centre or Unique Identification Number field to this form. We do not agree that the term "sub-branch" should be deleted from this form, as the MFDA will continue to use branches and sub-branches as descriptions of business locations.

Form 33-109F4 – Application for registration of individuals and review of permitted individuals

We were asked to make the following changes to Form 33-109F4:

- Business names should be dealt with outside NRD as a function of the firm's internal compliance and, therefore, the question regarding business names should be deleted from this form. We disagree. There are business names associated with individuals and not the firm, and requesting this information ensures the information can be searched for the individual's associations, as Item 1 is a "searchable field" on NRD.

- Remove the requirement to disclose eye colour, hair colour, height, and weight. Since photographs are not required to be submitted for individual applicants, the CSA will continue to request this information for identification purposes.

- Revise the proficiency section to limit disclosure to post-secondary education, degrees and diplomas that are relevant to, or required for, the application. We will continue to require full details of all post-secondary education, since this information is a matter of record at the post-secondary institutions attended by the applicant and is not difficult to obtain.

- Include a separate reference guide for this form. We may provide in future a reference guide for this form.

Form 33-109F6 – Application for registration as dealer, adviser or investment manager

We have reorganized and revised the Form 33-109F6 (F6) in a manner that we believe addresses the comments received. The revised F6 provides clarity and guidance within a logically structured framework. These changes are intended to create a more user friendly registration form that provides the regulator with the information necessary to determine whether a firm is suitable for registration.

In response to comments, we have provided extensive instructions for completing the F6 and added a "definition" section of terms used throughout the form. Collectively, these defined terms provide clarity to the filers. The form permits firms that are already registered in at least one jurisdiction of Canada to file an abbreviated F6. We have also revised the list of documents required to be submitted to the regulator, along with the F6.

Form 33-109F7 – Notice of reinstatement of registered individuals and transfer of permitted individuals

A condition for using the Form 33-109F7 is that, since the individual leaving their former sponsoring firm, there have been no changes to the information previously provided in respect of Items13 (Regulatory Disclosure), 14 (Criminal Disclosure), 15 (Civil Disclosure) and 16 (Financial Disclosure) of Form 33-109F4.

A commenter pointed out that there will always be a change in Item 13 – Regulatory Disclosure, as firms will end-date an individual's registration history with the previous sponsoring firm. In response to this comment, we have reworded Item 13.1(a) and 13.2(a) to address this concern.

List of commenters
(Private individuals are not included in this list.)

Advocis
Agri-Growth International Inc.
Alberta Land & Investment Brokers Inc.
Alberta Providence Financial Inc.
Alta Gas Ltd.
Alternative Investment Management Association
Arrow Hedge Partners Inc.
Assante Wealth Management
Barometer Capital Management Inc.
Becher McMahon Capital Markets Inc.
Bick Financial Security Corporation
Blaney McMurtry LLP
BMO Mutual Funds
BMO Nesbitt Burns Inc.

Borden Ladner Gervais LLP
Borden Ladner Gervais LLP on behalf of Orbis Investment Management Limited
Brandes Investment Partners & Co.
CAL-GAS Inc.
Canada's Venture Capital & Private Equity Association
Canadian Advocacy Council
Canadian Bankers Association
Canadian Life and Health Insurance Association Inc.
Capital Street Group
Cardinal Capital Management, Inc.
CareVest Capital Inc.
Chambre de la sécurité financière
CIBC
Citrine Investment Services
Clearview School Division No. 71
Cornerstone Group of Companies
Cornerstone Investment Strategies Inc.
Crosbie & Company Inc.
Crown Properties International Corporation
CSI Global Education Inc.
Desjardins Fédération des caisses du Québec
Edward Jones
Fasken Martineau DuMoulin LLP
Federation of Mutual Fund Dealers
Fleming LLP
Focused Money Solutions Inc.
Foundation Capital Corporation
Franklin Templeton Investments Corp.
Goodmans LLP
Greystone Managed Investments Inc.
Hanbury Management Ltd
Healthbridge Capital Management Ltd.
Highstreet Asset Management
IFSE Institute
IGM Financial Inc.
Independent Financial Brokers of Canada
Independent Planning Group Inc.
Investment Adviser Association
Investment Counsel Association of Canada
Investment Dealers Association of Canada
Investment Industry Association of Canada
Investment Technology Group
Irwin, White & Jennings
Jarislowsky Fraser Limited
Keystone Real Estate Investments
KMC Capital Inc.
La Banque Nationale du Canada
Limited Market Dealers Association
Managed Funds Association
MC2 Consulting Inc.
McLean Budden Limited
McMillan
MD Funds Management Inc.
MGI Securities
Nexus Investment Management Inc.
Olympia Trust Company
Ontario Bar Association
Ontario Teachers' Pension Plan
Osler, Hoskin & Harcourt LLP
Osler, Hoskin & Harcourt LLP on behalf of The Goldman Sachs Group, Inc.
Paragon Capital Corporation Ltd.
PFSL Investments Canada Ltd.
Prestigious Properties Group
Proforma Capital Inc.
R.A. Floyd Capital Management Inc.
Royal Bank Financial Group
Resolute Funds Limited
RESP Dealers Association of Canada
Schinnour Matkin & Baxter
Scotia Cassels
Securities Industry and Financial Markets Association
Shire International Real Estate Investments Ltd
SHSC Financial Inc.
Signature Capital Inc.
Société Générale Corporate & Investment Banking
Stikeman Elliott LLP
TD Bank Financial Group
TD Securities (USA) LLC
The Canadian Institute of Chartered Accountants
The Investment Funds Institute of Canada
The Lucid Group of Companies
Tikka Financial
Torys LLP
Tradex Management Inc.
VenGrowth Asset Management Inc.
Worldsource Financial Management Inc.

Appendix B

Summary of changes to the 2008 Proposal

This appendix describes the key changes we made to the 2008 Proposal. References to changes are to Regulation 31-103, unless otherwise noted. The blackline of changes in Appendix C sets out all of the changes we made to the 2008 Proposal.

Reorganization of the Regulation

We reorganized the Regulation to allow registrants to better understand, and comply with, the registration requirements. We now clearly distinguish between the requirements applicable to individuals and to firms. This should allow individuals and firms to more easily answer the following two key questions:

1. Do I need to be registered?

2. If so, what requirements do I have to meet?

We reorganized the Regulation into four functional areas:

- individual registration
- firm registration
- business operations
- client relationships

We also reordered and renumbered the Policy Statement in accordance with the Regulation. The section numbers in the Policy Statement are identical to those of the Regulation, to allow for easy reference.

Policy Statement guidance on business trigger

We revised the guidance on the business trigger for dealer registration to better articulate our interpretation of what it means to be in the business of trading. We made the following changes.

Changes to Policy Statement guidance on the business trigger		
Deletions	**Addition**	**Clarifications**
• Reference to the business trigger test for investment fund managers because the business trigger is not part of the legislative trigger for investment fund manager registration. • Discussion of trading for one's own account. This reflects the addition of an exemption for trades through a registered dealer.	• Expanded guidance on venture capital.	• The list of business trigger factors is not exhaustive. • Some of the business trigger factors apply only to trading activities. • We will not automatically assume that an individual or firm acting as an intermediary is necessarily in the business

Changes to Policy Statement guidance on the business trigger		
Deletions	**Addition**	**Clarifications**
• Discussion of principal trading at registered firms. The concerns expressed in our previous publication are more appropriately managed by the registered firm's internal controls. • Discussion of mortgage investment companies.		of trading in securities.

Definitions

We added or revised the following definitions.

Changes to definitions	
New definitions	**Revised definition**
• Debt security • Eligible client • Sponsoring firm • Subsidiary	• Permitted client – see discussion below.

Permitted client

We made selected conforming changes to elements of the definition of "permitted client" that derive from the definition of "accredited investor" in *Regulation 45-106 respecting Prospectus and Registration Exemptions* (Regulation 45-106).

We also broadened the permitted client definition by:

- changing the threshold for corporations from shareholders' equity of least $100 million, to a person other than an individual or an investment fund, that has net assets of at least $25 million as shown on its most recently prepared financial statements

- including partnerships and other business organizations (we now use the language "person" instead of "corporation"), foreign governments and agencies, and wholly-owned subsidiaries of Canadian pension plans

- designating as a permitted client vehicles that other permitted clients may use for their investing, as long as no non-permitted client also uses that vehicle for investing

- adding guidance to the Policy Statement that is derived from Policy Statement 45-106 about matters such as when and how to assess qualification as a permitted client

Individual registration

Proficiency requirements

We made the following changes to the proficiency requirements:

Changes to proficiency requirements		
Deletion	**Additions**	**Clarifications**
• 36-month time limit on examinations for individuals who have been continuously employed in the securities industry. • A portfolio manager chief compliance officer can no longer qualify for that category by having been previously registered as a portfolio manager advising representative.	• Training is included in the proficiency principle. • Proficiency requirements for chief compliance officers of exempt market dealers. • The Exempt Market Products Exam, an alternative examination for representatives of exempt market dealers. It is also available to chief compliance officers of exempt market dealers. • The Mutual Fund Dealers Compliance Exam, an alternative examination, for chief compliance officers of mutual fund dealers. • The PDO Exam plus the qualifications of a portfolio manager advising representative for a portfolio manager chief compliance officer • A portfolio manager chief compliance officer qualifies to be an investment fund manager chief compliance officer	• The 36-month time limit on examinations applies to Québec representatives of mutual fund dealers and scholarship plan dealers who have passed the examinations prescribed by Policy Q-9, *Dealers, Advisers and Representatives*. • Experience timelines have been clarified and unified. They may be cumulative. • Chief compliance officers are subject to the proficiency principle.

Exemption for individuals carrying out investment fund manager activities

We have never contemplated that individuals other than UDPs and CCOs of investment fund managers would have to register for activities carried out on behalf of a registered investment fund manager. However, for technical reasons, we added an exemption in the Regulation for these individuals.

Firm registration

Exempt market dealers

We eliminated the distinction between exempt market dealers that handle, hold, or have access to client assets and those that do not. We believe that all of the capital, insurance and conduct requirements are relevant and necessary whether or not an exempt market dealer handles, holds, or has access to client assets.

All exempt market dealers are required to submit annual financial statements to regulators. In recognition of their different business model, exempt market dealers are not required to submit interim financial statements to regulators.

Investment fund managers

We made the following changes to investment fund manager registration:

Changes to investment fund manager registration	
Deletion	**Additions**
• The cumulative capital requirement if the firm is registered as both a portfolio manager and an investment fund manager that trades its own non-prospectus qualified funds.	• A temporary two-year exemption for investment fund managers whose head office is located outside Canada. • For investment fund managers whose head office is located in Canada, a temporary two-year exemption from registration in any province or territory where the head office is not located. • An exemption from the investment fund manager registration requirement for capital accumulation plans. This exemption will be available on a temporary basis while we monitor the situation. It will be available to the extent the plan is only required to be registered as an investment fund manager because the investment fund is an investment option in a capital accumulation plan.

Exemptions from the requirement to register

General changes to exemptions regime

For ease of reference, most of the registration exemptions are in the Regulation. We have renamed the Regulation to *Registrant Requirements and Exemptions* to reflect this change. Regulation 45-106 will become primarily a prospectus exemption rule.

Dealer exemptions

We have added a number of new exemptions since the 2008 Proposal, most of which re-state exemptions that existed in Regulation 45-106:

- individuals acting for investment fund managers - this exemption is new, and has no predecessor exemption in Regulation 45-106

- person not in the business of trading in British Columbia, Manitoba and New Brunswick

- trades through or to a registered dealer

- additional investments in investment funds if initial purchase before September 14, 2005

- private investment club

- exchange contracts - applicable in Alberta, British Columbia, Saskatchewan and New Brunswick

- small security holders selling and purchase arrangements

- capital accumulation plan exemption - this exemption is new, and has no predecessor exemption in Regulation 45-106

- private investment fund - loan and trust pools - this exemption is new, and has no predecessor exemption in Regulation 45-106

Sub-adviser exemption

We have not carried forward the sub-adviser exemption in the final version of the Regulation. This change is a temporary. The exemption will remain in section 7.3 of OSC Rule 35-502 *Non Resident Advisers*, and discretionary relief on a similar basis will still be granted in other jurisdictions. We made this change to give us an opportunity to review the exemption taking into account the regulatory responses to cross-border activity.

Portfolio managers trading their own pooled funds

We clarified the Policy Statement discussion about the dealer exemption for portfolio managers trading their own non-prospectus qualified funds.

International dealers and advisers

Firms relying on the international dealer and international adviser exemptions will have to provide annual notice to regulator that they are using the exemption instead of notice when they stop using the exemption.

In Ontario, the requirement for international advisers acting as the portfolio manager of an investment fund to disclose in offering documents the difficulty of relying on enforcement rights will remain in OSC Rule 35-502. We will monitor its use and may propose its adoption in a Regulation at a later date.

Business operations

Record-keeping

We made the following changes to record-keeping requirements:

Changes to record-keeping requirements	
Deletion	**Clarification**
• The distinction between activity records and relationship records. A single retention period of seven years from the date a record is created applies to these records.	• Guidance in the Policy Statement on the records that must be kept and on electronic storage of records.

Account opening documentation

We deleted the requirement to maintain account opening documentation. It was redundant because registered firms are required to maintain this information under the record keeping provision in the Regulation.

Acquisition of a registered firm's securities or assets

We revised the requirement to provide notice of the intention to acquire a registered firm's securities or assets. This is to ensure that acquisitions with the potential to give rise to regulatory concerns, including holding companies of registered firms, are reviewed.

Solvency

We made the following changes to the solvency requirements:

Changes to solvency requirements	
Deletions	**Addition**
• Requirement to calculate working capital monthly. • Cumulative capital requirement for firms that are registered as both portfolio managers and investment fund managers that trade their own non-prospectus qualified investment funds.	• Guidance in the Policy Statement on factors that can affect how frequently a firm should calculate its working capital.

Audits and financial reporting

We made the following changes to audit and financial reporting requirements:

Changes to audit and financial reporting requirements	
Deletion	**Revision**
• Requirement for a registered firm to direct an auditor to conduct an audit or review.	• "Quarterly financial information" changed to "interim financial information", to ensure consistency with International Financial Reporting Standards (IFRS).

Client relationships

KYC and suitability

Identification of insiders

We limited the requirements to identify insiders to those who are insiders of reporting issuers and issuers whose securities are publicly traded.

Identification of partnerships and trusts

In addition to corporations, registrants must now establish the identity of partnerships and trusts, in accordance with section 13.2(3) of the Regulation. We revised

the Regulation to provide SRO members with an exemption from the requirement in that section because SRO rules set out similar requirements for their members.

KYC information in support of suitability

Registrants do not have to collect this information from permitted clients for the purpose of suitability determination if the client has waived the suitability determination. However, if the registrant is managing the permitted client's investment portfolio on a discretionary basis, they must collect this information.

KYC and suitability guidance in the Policy Statement

We revised the guidance in the Policy Statement to clarify that:

- "gate-keeper" KYC is always required to establish the client's identity, even if a permitted client waives a suitability determination
- depending on the client relationship, the extent of KYC information that a registrant should obtain in support of suitability may differ
- all registrants must know the product they are recommending for the client or on which they are advising the client

Conflicts of interest

The conflict of interest provisions have evolved since they were first published in 2007. We made further changes in response to comments on the 2008 Proposal. In some cases, we returned to proposals in the 2007 Proposal.

Other changes are consistent with the conflicts of interest principle. We have also made some clarifications. The objectives of the changes are to ensure that:

- clients receive meaningful disclosure about conflicts of interest
- unnecessary regulatory burdens are not imposed on registrants

Changes to conflict of interest provisions		
Items moved	**Additions**	**Clarifications**
• Materiality threshold for the principle moved from the Policy Statement to the Regulation. • Disclosure about related and connected issuers is now an example of disclosure in the Policy Statement. This is to ensure that the articulated best practices of disclosure will apply. • Registered advisers must deliver a client-friendly description of how opportunities are allocated	• Guidance in the Policy Statement on individuals disclosing material conflicts to their sponsoring firms. • Guidance on managed account transactions in the Policy Statement. • Exemptions from limitations on recommendations include recommendations about investment funds for which a registered firm is an adviser or investment fund manager.	• Used clearer language for the provisions of the section on limitations on certain managed account transactions. We included "investment fund managed by the adviser" in the concept of "investment portfolio managed by the adviser" to ensure we implement the existing interpretation of that section. We also restored the existing idea of "knowingly cause" in that section. • Guidance in the Policy Statement on

fairly, and not the actual fairness policies, which may be difficult for clients to understand. Moved within Regulation to Part 14 *Handling client accounts – firms*.		disclosure to clients clarifies that for disclosure to be meaningful, it should be made "in a timely manner".

Complaint handling

New framework for complaint handling

The CSA is currently working with the SROs on a harmonized framework for the complaint handling regime. This framework is expected to:

- set out standards and timelines for acknowledging, investigating and responding to client complaints, and

- require firms to monitor and report on complaints, so they can detect frequent and repetitive complaints that may, on a cumulative basis, indicate a problem

At this time, we included in the Regulation only the provisions that are harmonized according to the framework. We will incorporate the remainder of the complaint handling framework through amendments to the Regulation. The SROs published their proposals in the spring of 2009.

Dispute resolution

We removed the requirement to "participate in an independent dispute resolution service" and we broadened the dispute resolution provision to include "mediation".

Relationship disclosure

We aim to achieve harmonization between CSA and SRO client relationship requirements. Since that project is not yet complete, we included in the Regulation only the provisions that are harmonized.

Changes to relationship disclosure provisions	
Addition	**Clarifications**
• A general exemption for all dealers from delivering relationship disclosure information to permitted clients who waive the requirement.	• The relationship disclosure principle has been refined. It will apply to all dealers and advisers. • The detailed relationship disclosure requirements are the minimum to be disclosed by registrants that are not SRO members. SRO rules set out essentially harmonized details for their members.

Nominee name accounts

We added guidance to the Policy Statement that it is good business practice for non-SRO members to hold client assets in client name and not in nominee name. The capital

requirements for non-SRO members are not designed to reflect the added risk of holding client assets in nominee name. SRO rules add extra capital requirements and specify approved custodians to address these risks.

Account activity reporting

We made the following changes to the account activity reporting requirements:

Changes to account activity reporting requirements		
Deletions	**Addition**	**Clarification**
• Requirement to report trades otherwise than in trade confirmations. • Mutual fund dealers do not have to provide monthly statements, even if a transaction takes place in the month. • SRO members are not subject to the CSA requirement to deliver trade confirmations because they are subject to SRO rules instead.	• Scholarship plan dealers will deliver annual client statements.	• The contents of all client statements have been harmonized.

Reduction of debit balances

We deleted the requirement on reducing debit balances.

Transition

We extended certain transition periods where it was appropriate to provide registrants with more time to comply with certain sections of the Regulation. We have not shortened any of the transition periods published in the 2008 Proposal.

Appendix C

Concordance of Changes to the 2008 Proposal

				February 29, 2008 CSA Publication
	Part 1	Interpretation		
		1.1	Definition of terms used throughout this Regulation	1.1, 8.20
		1.2	Interpretation of "securities" in Alberta, British Columbia, New Brunswick and Saskatchewan	--
		1.3	Information may be given to the principal regulator	--
Individual registration	Part 2	Categories of registration for individuals		
		2.1	Individual categories	2.7
		2.2	Client mobility exemption – individuals	8.22, 8.24, 8.25
		2.3	Individuals acting for investment fund managers	--
	Part 3	Registration requirements – individuals		
		Division 1: General proficiency requirements		
		3.1	Definitions	4.1
		3.2	U.S. equivalency	4.2
		3.3	Time limits on examination requirements	4.4
		Division 2: Education and experience requirements		
		3.4	Proficiency – initial and ongoing	4.3
		3.5	Mutual fund dealer – dealing representative	4.5
		3.6	Mutual fund dealer – chief compliance officer	4.6
		3.7	Scholarship plan dealer – dealing representative	4.7
		3.8	Scholarship plan dealer – chief compliance officer	4.8
		3.9	Exempt market dealer – dealing representative	4.9
		3.10	Exempt market dealer – chief compliance officer	4.10
		3.11	Portfolio manager – advising representative	4.11
		3.12	Portfolio manager – associate advising representative	4.12
		3.13	Portfolio manager – chief compliance officer	4.13
		3.14	Investment fund manager – chief compliance officer	4.15
		Division 3: Membership in a self-regulatory organization		
		3.15	Who must be approved by an SRO before registration	3.1(2)
		3.16	Exceptions from certain requirements for SRO approved persons	3.3
	Part 4	Restrictions on registered individuals		
		4.1	Restriction on acting for another registered firm	6.3
		4.2	Associate advising representatives – pre-approval of advice	2.8
	Part 5	Ultimate designated person and chief compliance officer		
		5.1	Responsibilities of the ultimate designated person	5.24
		5.2	Responsibilities of the chief compliance officer	5.25
	Part 6	Suspension and revocation of registration – individuals		
		6.1	If individual ceases to have authority to act for firm	7.6
		6.2	If IIROC approval is revoked or suspended	7.3(2)
		6.3	If MFDA approval is revoked or suspended	7.4(2) and (3)
		6.4	If sponsoring firm is suspended	7.2
		6.5	Dealing and advising activities suspended	7.1
		6.6	Revocation of a suspended registration – individual	7.7
		6.7	Exception for individuals involved in a hearing	7.8
		6.8	Application of Part 6 in Ontario	--
Firm registration	Part 7	Categories of registration for firms		
		7.1	Dealer categories	2.1
		7.2	Adviser categories	2.3
		7.3	Investment fund manager category	2.6
	Part 8	Exemptions from the requirement to register		
		Division 1: Exemptions from dealer and underwriter registration		
		8.1	Interpretation of "trade" in Quebec	--
		8.2	Definition of "securities" in Alberta, British Columbia, New Brunswick and Saskatchewan	--
		8.3	Interpretation - exemption from underwriter registration requirement	8.1(2)

			February 29, 2008 CSA Publication
	8.4	Person not in the business of trading in British Columbia, Manitoba and New Brunswick	--
	8.5	Trades through or to a registered dealer	8.2, 8.3
	8.6	Adviser – non-prospectus qualified investment fund	2.2
	8.7	Investment fund reinvestment	8.4
	8.8	Additional investment in investment funds	8.5
	8.9	Additional investment in investment funds if initial purchase before September 14, 2005	[8.1 45-106]
	8.10	Private investment club	8.7
	8.11	Private investment fund – loan and trust pools	8.6
	8.12	Mortgages	8.8
	8.13	Personal property security legislation	8.9
	8.14	Variable insurance contract	8.10
	8.15	Schedule III banks and cooperative associations – evidence of deposit	8.11
	8.16	Plan administrator	8.12
	8.17	Reinvestment plan	8.13
	8.18	International dealer	8.15
	8.19	Self-directed registered education savings plan	8.18
	8.20	Exchange contract - Alberta, British Columbia, New Brunswick and Saskatchewan	[3.2 45-106]
	8.21	Specified debt	8.19
	8.22	Small security holder selling and purchase arrangements	[3.6 45-106]
	Division 2: Exemptions from adviser registration		
	8.23	Dealer without discretionary authority	2.4
	8.24	IIROC members with discretionary authority	2.5
	8.25	Advising generally	8.14
	8.26	International adviser	8.16
	Division 3: Exemption from investment fund manager registration		
	8.27	Private investment club	8.7
	8.28	Capital accumulation plan exemption	--
	8.29	Private investment fund – loan and trust pools	8.6
	Division 4: Mobility exemption – firms		
	8.30	Client mobility exemption – firms	8.23, 8.25(b)
	Part 9	Membership in a self-regulatory organization	
	9.1	IIROC membership for investment dealers	3.1(1)
	9.2	MFDA membership for mutual fund dealers	3.2
	9.3	Exception from certain requirements for SRO members	3.3
	Part 10	Suspension and revocation of registration – firms	
	Division 1: When a firm's registration is suspended		
	10.1	Failure to pay fees	7.5
	10.2	If IIROC membership is revoked or suspended	7.3(1)
	10.3	If MFDA membership is revoked or suspended	7.4 (1) and (3)
	10.4	Activities not permitted while a firm's registration is suspended	7.1
	Division 2: Revoking a firm's registration		
	10.5	Revocation of a suspended registration - firm	7.7
	10.6	Exception for firms involved in a hearing	7.8
	10.7	Application of Part 10 in Ontario	--
Business operations	Part 11	Internal controls and systems	
	Division 1: Compliance		
	11.1	Compliance system	5.23
	11.2	Designating an ultimate designated person	2.9
	11.3	Designating a chief compliance officer	2.10
	11.4	Providing access to board	5.26
	Division 2: Books and records		
	11.5	General requirements for records	5.15
	11.6	Form, accessibility and retention of records	5.16
	Division 3: Certain business transactions		
	11.7	Tied settling of securities and transactions	6.9
	11.8	Tied selling	6.10
	11.9	Registrant acquiring a registered firm's securities or assets	6.8
	11.10	Registered firm whose securities are acquired	[6.7 of Feb, 2007 CSA publication]
	Part 12	Financial condition	
	Division 1: Working capital		

			February 29, 2008 CSA Publication
		12.1 Capital requirements	4.18, 4.19
		12.2 Notifying the regulator of a subordination agreement	4.20
		Division 2: Insurance	
		12.3 Insurance – dealer	4.21
		12.4 Insurance – adviser	4.22
		12.5 Insurance – investment fund manager	4.23
		12.6 Global bonding or insurance	4.24
		12.7 Notifying the regulator of a change, claim or cancellation	4.25
		Division 3: Audits	
		12.8 Direction by a regulator to conduct an audit or review	4.27
		12.9 Co-operating with the auditor	4.33
		Division 4: Financial reporting	
		12.10 Annual financial statements	4.31, 4.32
		12.11 Interim financial information	--
		12.12 Delivering financial information – dealer	4.28
		12.13 Delivering financial information – adviser	4.29
		12.14 Delivering financial information – investment fund manager	4.30
Client relationships	Part 13	Dealing with clients – individuals and firms	
		Division 1: Know your clients and suitability	
		13.1 Investment fund managers exempt from this Division	5.1
		13.2 Know your client	5.3
		13.3 Suitability	5.5
		Division 2: Conflicts of interest	
		13.4 Identifying and responding to conflicts of interest	6.1
		13.5 Restrictions on certain managed account transactions	6.2
		13.6 Disclosure when recommending related or connected securities	6.5
		Division 3: Referral arrangements	
		13.7 Definitions – referral arrangements	6.11
		13.8 Permitted referral arrangements	6.12
		13.9 Verifying the qualifications of the person receiving the referral	6.14
		13.10 Disclosing referral arrangements to clients	6.13
		13.11 Referral arrangements before this Regulation came into force	6.15
		Division 4: Loans and margin	
		13.12 Restriction on lending to clients	5.7
		13.13 Disclosure when recommending the use of borrowed money	5.8
		Division 5: Complaints	
		13.14 Application of this division	5.27, 5.32
		13.15 Handling complaints	5.28
		13.16 Dispute resolution service	5.29
	Part 14	Handling client accounts – firms	
		Division 1: Exemption for investment fund managers	
		14.1 Investment fund managers exempt from Part 14	5.17
		Division 2: Disclosure to clients	
		14.2 Relationship disclosure information	5.4
		14.3 Disclosure to clients about the fair allocation of investment opportunities	6.7(2)
		14.4 When the firm has a relationship with a financial institution	5.9
		14.5 Notice to clients by non-resident registrants	5.33
		Division 3: Client assets	
		14.6 Holding client assets in trust	5.10
		14.7 Holding client assets – non-residents registrants	5.35
		14.8 Securities subject to a safekeeping agreement	5.11
		14.9 Securities not subject to a safekeeping agreement	5.12
		Division 4: Client accounts	
		14.10 Allocating investment opportunities fairly	6.7(1)
		14.11 Selling or assigning client accounts	5.6
		Division 5: Account activity reporting	
		14.12 Content and delivery of trade confirmation	5.18
		14.13 Semi-annual confirmations for certain automatic plans	5.20
		14.14 Client Statements	5.22
Exemption from this Regulation	Part 15	Granting an exemption	
		15.1 Who can grant an exemption	9.1
Transition and timing	Part 16	Transition	
		16.1 Change of registration categories – individuals	10.2
		16.2 Change of registration categories – firms	10.1(1)

		February 29, 2008 CSA Publication
	16.3 Change of registration categories – limited market dealers	10.1(2)
	16.4 Registration for investment fund mangers active when this Regulation comes into force	10.3
	16.5 Temporary exemption for Canadian investment fund manager registered in its principal jurisdiction	--
	16.6 Temporary exemption for foreign investment fund managers	--
	16.7 Registration of exempt market dealers	10.4
	16.8 Registration of ultimate designated persons	10.5
	16.9 Registration of chief compliance officers	10.6
	16.10 Proficiency for dealing and advising representative	4.16
	16.11 Capital requirements	10.10
	16.12 Continuation of existing discretionary relief	--
	16.13 Insurance requirements	10.11
	16.14 Relationship disclosure information	10.7
	16.15 Referral arrangements	10.9
	16.16 Complaint handling	10.8
	16.17 Client statements - mutual fund dealers	--
	16.18 Transition to exemption – international dealers	--
	16.19 Transition to exemption – international advisers	--
	16.20 Transition to exemption – portfolio manager and investment counsel (foreign)	--
	Part 17 When this Regulation comes into force	
	17.1 Effective date	11.1
Forms	FORM 31-103F1 CALCULATION OF EXCESS WORKING CAPITAL	Form 31-103F1
	FORM 31-103F2 SUBMISSION TO JURISDICTION AND APPOINTMENT OF AGENT FOR SERVICE	Form 31-103F2
	FORM 31-103F3 USE OF MOBILITY EXEMPTION	Form 31-103F3
Appendixes	APPENDIX A – BONDING AND INSURANCE CLAUSES	APPENDIX A
	APPENDIX B – SUBORDINATION AGREEMENT	APPENDIX B
	APPENDIX C – NEW CATEGORY NAMES – INDIVIDUALS	APPENDIX D
	APPENDIX D – NEW CATEGORY NAMES – FIRMS	APPENDIX C
	APPENDIX E – NON-HARMONIZED CAPITAL REQUIREMENTS	APPENDIX E
	APPENDIX F – NON-HARMONIZED INSURANCE REQUIREMENTS	APPENDIX F

Appendix D

Alternative approach to regulating exempt market intermediaries in certain jurisdictions

The Alberta Securities Commission, British Columbia Securities Commission, Manitoba Securities Commission, Government of the Northwest Territories (Department of Justice), Government of Nunavut (Department of Justice), and Government of the Yukon Territory (Community Services) will each issue an order exempting a person from the dealer registration requirement when the person trades in securities relying on one of the following prospectus exemptions in Regulation 45-106: (i) accredited investor (section 2.3); (ii) family, friends, and business associates (section 2.5); offering memorandum (section 2.9); and (iv) minimum investment amount (section 2.10). To rely on this order, a person must meet each of the following conditions:

- not be otherwise registered
- not provide suitability advice leading to the trade
- not otherwise provide financial services to the purchaser
- not hold or have access to the purchaser's assets
- provide a risk disclosure in prescribed form to the purchaser, and
- file an information report with the securities regulatory authority

These conditions preserve and enhance the current framework in the participating CSA jurisdictions for using the dealer registration exemptions for capital raising found in Regulation 45-106 today. In addition, they were part of the BCSC and MSC 2008 proposal for regulating exempt market dealers, with two exceptions. We describe both the differences between today's regime and this regime, and the 2008 proposals by the BCSC and the MSC, below.

Today, no person trading in these prospectus-exempt securities in these jurisdictions is required to register. The order will limit those who can rely on it to those who are not otherwise registered so that investors will get the same level of protection from a person who is registered in every trade. This was part of the 2008 BCSC and MSC proposal.

Today, it is implicit in the registration exemptions for capital raising that the person relying on the exemption will not provide suitability advice as that is a registrable activity. Although this condition was not articulated in the 2008 BCSC and MSC proposal, we do not think it is a change but, rather, makes explicit that which was implicit.

Today, there is no prohibition when relying on the registration exemptions for capital raising when the person has previously provided financial services. Nor was this condition part of the 2008 BCSC and MSC proposals. The participating jurisdictions think that this condition will avoid the risk that a purchaser who has previously had financial services advice from the exempt market intermediary will not understand that he or she cannot rely on that same person for advice on this occasion. In British Columbia, the order will not include this condition but the BCSC will consult in the coming year to understand whether it should also impose this condition.

Today, there is no prohibition on holding or having access to the purchaser's assets. From consultations with exempt market dealers in certain jurisdictions, including British Columbia, Alberta, and Manitoba, we believe that this activity is not an activity that exempt market dealers generally engage in. So, although this condition is both a change from today's regime and a change from the 2008 BCSC and MSC proposals, we do not think that

this new condition imposes a new burden on this community of exempt market intermediaries.

Today, there is no requirement that a separate risk disclosure, describing the risks of dealing with the market intermediary rather than the risks of the prospectus-exempt securities, go the purchaser. The 2008 BCSC and MSC proposal, however, included this condition. The participating jurisdictions think this clear disclosure about the risks of purchasing through the exempt market intermediary will increase the purchaser's chance of understanding that the purchaser is not represented and cannot get advice about the purchase from the intermediary.

Today there is no requirement imposed on exempt market dealers to file an information report to disclose their dealing in the prospectus-exempt market and provide the securities regulatory authorities with contact information. However, the 2008 BCSC and MSC proposal did include this condition. Participating jurisdictions believe that collecting this information will facilitate their communication with market participants in the prospectus-exempt market and allow them to better understand their businesses.

This order will be issued into force and effect contemporaneously with the implementation of Regulation 31-103.

CSA Staff Notice 31-311

Draft *Regulation 31-103 respecting Registration Requirements and Exemptions*
Transition into the New Registration Regime

June 12, 2009

Draft Regulation 31-103 respecting Registration Requirements and Exemptions (**Regulation 31-103**) was last published for comment on February 29, 2008 and has not yet been approved by the securities regulatory authorities. Over the next month, staff of the Canadian Securities Administrators (the **CSA**) will seek final approval of Regulation 31-103 and expect to publish it in its final form, on or about July 17, 2009. Subject to ministerial approvals in some jurisdictions, Regulation 31-103 would come into force on or about September 28, 2009 (the **effective date**).

Accordingly, this notice only reflects what CSA staff is recommending to the relevant securities regulatory authorities and ministries.

Introduction

This notice describes how staff of the CSA and the Investment Industry Regulatory Organization (**IIROC**) foresee transitioning firms and individuals from the existing registration regime to the new registration regime under Regulation 31-103. The CSA and IIROC staff are committed to making the transition as smooth and efficient as possible for all registrants. IIROC plans to publish its own notice regarding the conversion of registration categories as a supplement to this notice.

This notice discusses a number of issues concerning the planned implementation of Regulation 31-103:

- **National Registration Database (NRD) freeze period.** Subject to further notification, NRD would be shut down from 5:00 p.m. Eastern Time, September 25, 2009 to 11:59 p.m. Eastern Time, October 12, 2009.

- **Conversion.** Staff propose to convert existing categories of registration for firms and individuals to new categories of registration. In some cases, conversion would not take place if a firm's category of registration no longer exists under Regulation 31-103. Certain designations of unregistered individuals would not be converted (see section on Conversion below for more detail).

- **Transition timelines.** Staff propose transition periods that would give sufficient time for firms and individuals to adjust to, and comply with, certain new requirements.

NRD freeze period

NRD would be shut down for two weeks from 5:00 p.m. Eastern Time, September 25, 2009 to 11:59 p.m. Eastern Time, October 12, 2009.

It would be necessary to shut down NRD in order to convert

- existing categories of registration to the new categories of registration for firms and individuals under Regulation 31-103; and

- existing forms to the proposed revised forms under proposed revised *Regulation 33-109 respecting Registration Information* (**Regulation 33-109**).

Would firms have access to NRD during the freeze period?

Authorized firm representatives (**AFRs**) would be unable to create new submissions via NRD. Firms would have read-only access to NRD during the freeze period.

Would firms be required to make submissions during the freeze period?

Firms would be required to submit the following material information during the freeze period:

- Reinstatements: Using the paper version of the Form 33-109F7 *Reinstatement of Registered Individuals and Permitted Individuals*

- Termination notices for individuals who resign or are dismissed for cause: Using the paper version of the Form 33-109F1 *Notice of Termination of Registered Individuals and Permitted Individuals*

- Notices of changes to civil, criminal and financial information: Using the paper version of the Form 33-109F5 *Change of Registration Information*

These submissions would be made on paper using the forms under Regulation 33-109 that would also come into effect on September 28, 2009. Firms would have to re-file these notices on NRD after the freeze period is over, for recording purposes, **no later than November 10, 2009.**

Firms would be required to submit all other notices that should have otherwise been submitted during the freeze period **no later than November 24, 2009**.

Firms may continue to make applications on paper during the freeze period with the understanding that these applications may not be processed and would therefore have to be re-filed on NRD once the freeze period is over. For an application that is approved during the freeze period, it must be re-filed on NRD **no later than November 10, 2009**.

Would firms be charged for making submissions on paper during the freeze period?

Firms would not be required to pay any fees during the freeze period for filings made on paper that they would normally make through NRD. These fees would be payable when the filing is made on NRD after the freeze period ends.

What would happen to applications (including NRD submissions) submitted to the regulator before Regulation 31-103 comes into force?

CSA staff would use their best efforts to process applications submitted before Regulation 31-103 comes into force. However, if an application has been submitted but not approved by the effective date, the following would apply:

- NRD submissions would not be processed. The outstanding NRD submissions would be withdrawn from NRD. We anticipate that reports would be generated for these withdrawn submissions and the principal regulator would provide each firm with a list of these submissions.

- Firms and individuals would have to re-apply using the new forms as prescribed under revised Regulation 33-109.

- Firms and individuals applying for registration would be required to comply with the new requirements under Regulation 31-103 in order to be registered. For example, a firm would have to file Form 33-109F6 *Firm Registration* (**F6**) and comply with the new capital, insurance and proficiency requirements to obtain approval. **No transition is available.**

What would happen to submissions in a firm's work in progress as of the freeze period?

The applications that are in progress but not yet submitted to the regulator would be deleted by the system. We anticipate that reports would be generated for these deleted submissions and the principal regulator would provide each firm with a list of these submissions.

Would firms be charged fees again for submissions re-filed after they are withdrawn during the freeze?

The fees would be automatically withdrawn from NRD for individual applications and therefore it is recommended that firms use the "related to deficiency" function of NRD to avoid having fees withdrawn a second time. The regulator would, however, refund any duplicate fee withdrawals. There would be no new application fee for a firm registration.

How can firms increase the likelihood that applications are processed before Regulation 31-103 comes into force?

Applications should be submitted well in advance according to the following schedule:

Type of application	**Submission date**
Firm	On or before June 26, 2009
Individual – registration with adviser	On or before July 15, 2009
Individual – registration with an existing firm in any category other than adviser	On or before August 14, 2009

What about notices of reinstatement where a notice of termination was filed prior to the freeze period?

After the freeze period is over, NRD would prevent a reinstatement from being filed if an individual was terminated prior to the freeze period. In this case, a reactivation on Form 33-109F4 *Registration of Individual and Review of Permitted Individuals* must be filed. As fees would be automatically withdrawn for this submission, they would be refunded if the individual was moving from one firm to another within 90 days.

Summary of NRD freeze period

The following table describes how the freeze period would work:

NRD freeze period September 28, 2009 to October 12, 2009	**After NRD freeze period ends From October 13, 2009 onwards**
NRD would be shut down at 5:00 p.m. eastern time on Friday, September 25, 2009.	
• Conversion of existing categories of registration to new categories of registration takes place. All outstanding submissions in a firm's/AFR's work in progress would be deleted and those not yet processed by regulators would be withdrawn from NRD. A firm's/AFR's submissions would be deleted on September 28, 2009 whereas the regulators' submissions would be withdrawn on October 5, 2009. • Firms/AFRs would be unable to create new submissions via NRD. • Firms/AFRs would have read-only	• No later than November 10, 2009, firms would need to re-file the material information filed on paper during the freeze period (i.e. all reinstatements, terminations for cause, changes in civil, criminal and financial information). • No later than November 24, 2009, firms would have to file all other notices not filed during the freeze period that would otherwise have been required. • If an application for registration is filed during the freeze period on paper and not approved during the freeze, firms would have to re-file it on NRD after the

access during the freeze period. • Firms would only be required to continue to file material information (all reinstatements, terminations for cause, changes in civil, criminal and financial information). The filings would be made: (i) on paper, (ii) using the new forms, and (iii) fees are not required until material information re-filed on NRD.	freeze period to receive regulatory approval. If an application was approved, it must also be re-filed on NRD no later than November 10, 2009. • Firms would have to re-file all submissions that were withdrawn from NRD during the freeze period in order to receive regulatory approval. The principal regulator would provide each firm with a list of these submissions. • Fees would be withdrawn from a firm's NRD account for individual submissions re-filed and therefore firms should relate any re-filed submissions with those withdrawn to avoid being charged again. • There would be no new application fee for a firm registration if application was made prior to September 28, 2009 and not approved by then.

Conversion

Staff propose to convert existing categories of registration for firms and individuals to new categories of registration, where applicable. Please refer to Appendix A for the accompanying tables.

During the freeze period, existing categories of registration would be converted to new categories of registration as shown in the tables in Appendix A.

Some categories of registration would no longer exist under Regulation 31-103. These categories are set out in the tables in Appendix A. For example, the registration category of Security/Securities Issuer would be eliminated under Regulation 31-103. This would mean the firm is no longer registered.

Conversion to permitted individual status

Under Regulation 33-109, permitted individuals would include a director, chief executive officer, chief financial officer, chief operating officer or those performing the functional equivalent of any of those positions. In addition it would include shareholders who are the beneficial owners of, or exercise direct or indirect control or direction over, 10 percent or more of the voting securities of the firm. This is meant to capture only the mind and management that directly influence the firm. Junior officers are no longer required to seek approval. All individuals who meet the current definition of permitted individual (i.e. the more restricted group) under Regulation 33-109 would be converted during the freeze period.

All officers that would not be captured by the revised definition of permitted individuals should surrender the permitted activity or be terminated as permitted individuals after the effective date. However, firms should not make these surrender or termination filings during the freeze period. These individuals should be removed from NRD by December 31, 2009, otherwise the firm would be charged NRD user fees for these individuals. **These fees are non-refundable.**

Lists of officers would be generated by CDS Clearing and Depository Services Inc. (**CDS**). The regulator would send these lists to firms after the effective date to assist firms with removing officers that are not permitted individuals.

Firms can avoid NRD user fees by doing any one of the following:

- ***File a separate submission for each individual by December 1, 2009***

Firms may file a separate notice of termination (Form 33-109F1 *Notice of Termination of Registered Individuals and Permitted Individuals)* or change/surrender (Form 33-109F2 *Change or Surrender of Individual Categories*) on NRD for each individual no longer captured by the definition of permitted individual under Regulation 31-103 by December 1, 2009.

Notices of termination are required for individuals surrendering their last category or permitted activity on NRD. Change/surrender submissions are required for individuals who would remain active on NRD after removing the permitted activity no longer captured by Regulation 33-109.

CSA staff cannot guarantee that submissions filed after December 1, 2009 would be approved by December 31, 2009.

- ***File a bulk submission for firms with more than 10 officers***

CDS would provide assistance to firms with more than 10 officers that are no longer required to be on NRD. Lists of officers would be generated by CDS and would be sent to firms after the effective date with instructions. We expect that, after receiving this list, firms would provide their principal regulator with confirmation of the officers that need to be removed from NRD.

For more information, IIROC-member firms may contact Lisa Mullen at registration@iiroc.ca. All other firms may contact Helen Walsh of the CSA Systems Office at inquiries@nrd-info.ca.

- ***File an annual fee exclusion by December 31, 2009***

Firms may file an annual fee exclusion submission on NRD by December 31, 2009 for any individual that is no longer captured by the definition of permitted individual under Regulation 31-103 and is required to submit a notice of termination. Firms can only use this process if the individual is only approved in one category. For example, firms cannot use this process if an individual is both an officer and a representative.

The filing of an annual fee exclusion would avoid NRD fees being pulled from the firm's NRD account for that individual. It does not however, exempt the firm from filing a notice of termination to remove the individual as a permitted individual. See the NRD Information website for instruction on filing an annual fee exclusion http://www.nrd-info.ca/using/hint8.jsp?lang=en

Transition timelines

CSA staff have recommended transition periods to allow for firms and individuals to comply with the new requirements. Refer to Appendix B for a chart on transition timelines.

If a firm fails to meet the prescribed timelines set out for a transition period, it must cease to carry on business until all the requirements under Regulation 31-103 are met.

We anticipate that the following transition periods would apply to firms and individuals registered before the effective date. All times listed below are from the effective date.

For firms registered before the effective date

Generally:

- 3 months for firms to designate an individual in the category of Ultimate Designated Person (**UDP**) and to apply for registration for the registered individual as the UDP of the firm

- 3 months for firms to designate an individual in the category of Chief compliance Officer (**CCO**) and to apply for registration of the individual as the CCO of the firm

- 6 months for firms to satisfy bonding or insurance requirements and notify the regulator of a change, claim or cancellation to an insurance policy – current bonding and insurance must be maintained until the new requirements are satisfied

- 6 months for firms to comply with the referral arrangements requirement

- 12 months for firms to deliver relationship disclosure information to clients

- 12 months for firms to satisfy capital requirements and notify the regulator of a subordination agreement – current capital must be maintained until the new requirements are satisfied

- 24 months for firms to ensure that independent dispute resolution or mediation services are made available to clients to resolve complaints[1]

A firm that obtained discretionary relief relating to registration requirements existing before the effective date would be exempt from any substantially similar provision of Regulation 31-103

Mutual Fund Dealer:

- 24 months for firms registered in the category of mutual fund dealer to comply with the requirement to deliver client statements

International Dealer:

- 1 month for firms registered in the category of international dealer[2] to submit a completed Form 31-103F2 *Submission to Jurisdiction and Appointment of Agent for Service* – the firm's registration in the category of international dealer is revoked immediately

International Adviser:

- 12 months for firms registered in the category of international adviser[3] to submit a completed Form 31-103F2 *Submission to Jurisdiction and Appointment of Agent for Service*

During the 12 month transition period, international advisers may continue to operate under the conditions of OSC Rule 35-502 *Non-Resident Advisers* while considering whether their business would operate under the conditions of the exemption in Regulation 31-103 or whether they wish to be registered as a portfolio manager. If a firm currently registered as an international adviser would operate under the conditions of the exemption, it must file a completed Form 31-103F2 *Submission to Jurisdiction and*

[1] Except in Québec, where a transition period is not required.
[2] Ontario and Newfoundland and Labrador category only.
[3] Ontario category only.

Appointment of Agent for Service within 12 months of the effective date. The firm's registration category of international adviser would be converted to portfolio manager during the freeze but would be revoked in 12 months.

Portfolio Manager & Investment Counsel (Foreign):

- 12 months for firms registered in the category of portfolio manager & investment counsel (foreign)[4] to submit a completed Form 31-103F2 *Submission to Jurisdiction and Appointment of Agent for Service*

During the 12 month transition period, firms registered as portfolio manager & investment counsel (foreign) may continue to operate under the conditions of their registration and should consider whether their business would operate under the conditions of the exemption in Regulation 31-103 or whether they wish to be registered as a portfolio manager. If the firm would operate under the conditions of the exemption, it must file a completed Form 31-103F2 *Submission to Jurisdiction and Appointment of Agent for Service* within 12 months of the effective date. The firm's registration category of portfolio manager & investment counsel (foreign) would be converted to portfolio manager during the freeze but would be revoked in 12 months.

In some jurisdictions, although there is no category of international adviser, foreign advising firms may have been registered as portfolio managers with terms and conditions restricting their activities similar to the restrictions imposed on firms that are registered in the category of international adviser in other jurisdictions. These firms should consider using the international adviser registration exemption in Regulation 31-103 and surrender their registration in these jurisdictions. They should submit a completed Form 31-103F2 *Submission to Jurisdiction and Appointment of Agent for Service*.

For individuals registered before the effective date:

Generally:

- If an individual is registered in one of the following categories, that individual would not be required to satisfy formal proficiency requirements of the category so long as the individual remains registered in the category:
    - A dealing representative of a mutual fund dealer
    - An advising representative of a portfolio manager
    - An associate advising representative of a portfolio manager
    - An advising representative with terms and conditions on that registration that are equivalent to the scope of authority of an associate advising representative under Regulation 31-103

Except:

- For an individual registered as a dealing representative of a scholarship plan dealer or of an exempt market dealer transitioning from the limited market dealer category in Ontario (**ON**) and Newfoundland and Labrador (**NL**), the individual has 12 months to satisfy formal proficiency requirements and the NRD record must be updated to reflect that proficiency requirements have been met.

- An individual who was entitled to rely on an exemption granted by a regulator relating to registration requirements existing before the effective date would be exempt from any substantially similar proficiency requirements in Regulation 31-103

[4] Alberta category only.

Exempt market dealers (transitioning from limited market dealer category in ON and NL):

- 12 months for an individual designated as the CCO to satisfy proficiency requirements and the NRD record must be updated to reflect that proficiency requirements have been met.

Portfolio Manager (Pre-approval of advice for associate advising representatives)

- Staff has not recommended a transition for the requirement to pre-approve advice of an associate advising representative. A registered adviser must designate an advising representative to review the advice of the associate advising representative (or advising representative with equivalent terms and conditions). A firm must advise the regulator of the names of the advising representative and the associate advising representative subject to this designation on the seventh day after the designation. If your firm has already advised the regulator of this, there is no need to do this again unless there is a change.

The following transition periods apply to firms and individuals not required to register before the effective date, but that would be required to register under Regulation 31-103. All times listed below are from the effective date.

All requirements must be met at the time of the firm's application for registration. For example, if an application to register is made by a firm six months after the effective date, all requirements under Regulation 31-103 must be met at that time. For example, if an application to register is made by a firm on March 28, 2010, all requirements under Regulation 31-103 must be met by March 28, 2010.

Exempt market dealers (other than ON and NL):

- No transition for firms not active prior to the effective date. Regulatory approval must be obtained prior to carrying on business after the effective date.

- 12 months to apply for registration and comply with requirements if the firm is acting as a dealer in the exempt market prior to the effective date.

Investment fund managers with a head office in Canada:

- No transition for firms not active prior to the effective date. Regulatory approval must be obtained prior to carrying on business after the effective date.

- 12 months, for firms active prior to the effective date, to apply for registration in the jurisdiction where its head office is located

- 24 months, for firms active prior to the effective date, to apply for registration in other applicable Canadian jurisdictions*

Investment fund managers whose head office is outside Canada:

- 24 months to apply for registration if active prior to the effective date*

- 24 months to apply for registration if not active prior to the effective date *

* The CSA plans to publish a proposal for comment during the next year to explain under what circumstances an investment fund manager that has a head office outside Canada would need to register. This proposal would also indicate under what circumstances an investment fund manager that has a head office in Canada and is registered in that jurisdiction, would need to register in other Canadian jurisdictions.

The following chart summarizes the transition for investment fund managers

Head office in Canada?	**Active as of the effective date?**	**Transition Period**
Y	N	• None – regulatory approval must be obtained prior to carrying on business
Y	Y	• 12 months – to apply in the jurisdiction where its head office is located • 24 months – to apply in other applicable Canadian jurisdictions where it operates
N	Y	• 24 months – to apply for registration
N	N	• 24 months – to apply for registration

If an investment fund manager is registered in another category prior to the effective date, only certain items of the F6 need to be completed (these items are identified on the F6) to add this category to the existing registration.

Questions

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

Québec
Sophie Jean
Conseillère en réglementation
Service de la réglementation et des pratiques professionnelles et commerciales
Autorité des marchés financiers
Tel: 514-395-0337, ext. 4786
Toll-free: 1-877-525-0337
sophie.jean@lautorite.qc.ca

Alberta
David McKellar
Director, Market Regulation
Alberta Securities Commission
Tel: 403-297-4281
david.mckellar@asc.ca

British Columbia
Karin R. Armstrong
Registration Supervisor
British Columbia Securities Commission
Tel: 604-899-6692
Toll free: 1-800-373-6393
karmstrong@bcsc.bc.ca

Manitoba
Isilda Tavares
Registration Officer, Deputy Director
Manitoba Securities Commission
Tel: 204-945-2560
isilda.tavares@gov.mb.ca

New Brunswick
Kevin Hoyt
Director, Regulatory Affairs & Chief Financial Officer
New Brunswick Securities Commission
Tel: 506-643-7691
kevin.hoyt@nbsc-cvmnb.ca

Newfoundland & Labrador
Craig Whalen
Manager of Licensing, Registration and compliance
Financial Services Regulation Division
Securities Commission of Newfoundland and Labrador
Tel: 709-729-5661
cwhalen@gov.nl.ca

Northwest Territories
Donn MacDougall
Deputy Superintendent of Securities, Legal & Enforcement
Department of Justice
Government of the Northwest Territories
Tel: 867-920-8984
donald_macdougall@gov.nt.ca

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

Nunavut
Louis Arki
Director, Legal Registries
Department of Justice
Government of Nunavut
Tel: 867-975-6587
larki@gov.nu.ca

Ontario
Yan Kiu Chan
Legal Counsel, Registrant Regulation
Ontario Securities Commission
Tel: 416-204-8971
ychan@osc.gov.on.ca

Prince Edward Island
Katharine Tummon
Superintendent of Securities
Prince Edward Island Securities Office
Tel: 902-368-4542
kptummon@gov.pe.ca

Saskatchewan
Dean Murrison
Deputy Director, Legal/Registration
Saskatchewan Financial Services Commission
Tel: 306-787-5879
dean.murrison@gov.sk.ca

Yukon
Fred Pretorius
Superintendent of Securities
Government of Yukon
Tel: 876-667-5225
fred.pretorius@gov.yk.ca

Appendix A

Conversion of dealer firms

	Existing Category	**New Category**
Alberta	Investment Dealer	Investment Dealer
	Mutual Fund Dealer	Mutual Fund Dealer
	Scholarship Plan Dealer	Scholarship Plan Dealer
	Dealer	Restricted Dealer
	Dealer (Exchange Contracts)	Restricted Dealer
	Dealer (Restricted)	Restricted Dealer
	Security Issuer	--
British Columbia	Investment Dealer	Investment Dealer
	Mutual Fund Dealer	Mutual Fund Dealer
	Scholarship Plan Dealer	Scholarship Plan Dealer
	Exchange Contracts Dealer	Restricted Dealer
	Special Limited Dealer	Restricted Dealer
	Security Issuer	--
	Real Estate Securities Dealer	Restricted Dealer
Manitoba	Investment Dealer	Investment Dealer
	Mutual Fund Dealer	Mutual Fund Dealer
	Scholarship Plan Dealer	Scholarship Plan Dealer
	Securities Issuer	--
	Underwriter	Investment Dealer
	Specific Securities Dealer	Restricted Dealer
New Brunswick	Investment Dealer	Investment Dealer
	Mutual Fund Dealer	Mutual Fund Dealer
	Scholarship Plan Dealer	Scholarship Plan Dealer
Newfoundland & Labrador	Broker	Investment Dealer
	Investment Dealer	Investment Dealer
	Mutual Fund Dealer	Mutual Fund Dealer
	Scholarship Plan Dealer	Scholarship Plan Dealer
	Financial Intermediary Dealer	--
	Foreign Dealer	--
	International Dealer	--
	Limited Market Dealer	Exempt Market Dealer *
	Securities Dealer	Investment Dealer
	Securities Issuer	--
Northwest Territories	Investment Dealer	Investment Dealer
	Mutual Fund Dealer	Mutual Fund Dealer
	Scholarship Plan Dealer	Scholarship Plan Dealer
	Restricted Dealer	Restricted Dealer
Nova Scotia	Broker	Investment Dealer
	Investment Dealer	Investment Dealer
	Mutual Fund Dealer	Mutual Fund Dealer
	Scholarship Plan Dealer	Scholarship Plan Dealer

	Real Estate Securities Dealer	Restricted Dealer
	Securities Dealer	Investment Dealer
	Security Issuer	--
Nunavut	Investment Dealer	Investment Dealer
	Mutual Fund Dealer	Mutual Fund Dealer
	Scholarship Plan Dealer	Scholarship Plan Dealer
	Restricted Dealer	Restricted Dealer
Ontario	Investment Dealer	Investment Dealer
	Mutual Fund Dealer	Mutual Fund Dealer
	Scholarship Plan Dealer	Scholarship Plan Dealer
	Limited Market Dealer	Exempt Market Dealer *
	International Dealer	--
	Securities Issuer	--
Prince Edward Island	Investment Dealer	Investment Dealer
	Mutual Fund Dealer	Mutual Fund Dealer
	Scholarship Plan Dealer	Scholarship Plan Dealer
	Restricted Dealer	Restricted Dealer
Québec	Unrestricted Practice Dealer	Investment Dealer
	Unrestricted Practice Dealer (introducing broker)	Investment Dealer
	Unrestricted Practice Dealer (International Financial Centre)	Investment Dealer
	Discount Broker	Investment Dealer
	Firm in Group-Savings Plan Brokerage	Mutual Fund Dealer
	Scholarship Plan Dealer	Scholarship Plan Dealer
	Québec Business Investment Company (QBIC)	Restricted Dealer
	Debt Securities Dealer	Restricted Dealer
	Restricted Practice Dealer	Restricted Dealer
	Firm in Investment Contract Brokerage	Restricted Dealer
	Unrestricted Practice Dealer (NASDAQ)	Restricted Dealer
Saskatchewan	Investment Dealer	Investment Dealer
	Mutual Fund Dealer	Mutual Fund Dealer
	Scholarship Plan Dealer	Scholarship Plan Dealer
	Security Issuer	--
Yukon	Broker - Securities	Investment Dealer
	Broker - Mutual Funds	Mutual Fund Dealer
	Broker - Scholarship Plan Dealer	Scholarship Plan Dealer
	Broker - Security Issuer	--

* Limited market dealers would be converted to exempt market dealer and would not be required to submit an application seeking registration as an exempt market dealer.

Conversion of adviser firms

	Existing Category	**New Category**
Alberta	Investment Counsel	Portfolio Manager
	Portfolio Manager	Portfolio Manager
	Portfolio Manager/Investment Counsel	Portfolio Manager
	Portfolio Manager/Investment Counsel (Foreign)	Portfolio Manager (operating under existing terms and conditions)
	Portfolio Manager/Investment Counsel (Exchange Contracts)	Portfolio Manager
	Securities Adviser	--
British Columbia	Investment Counsel	Portfolio Manager
	Portfolio Manager	Portfolio Manager
	Securities Adviser	--
Manitoba	Investment Counsel	Portfolio Manager
	Portfolio Manager	Portfolio Manager
	Securities Adviser	--
New Brunswick	Portfolio Manager and Investment Counsel	Portfolio Manager
	Securities Adviser	--
Newfoundland & Labrador	Investment Counsel	Portfolio Manager
	Portfolio Manager	Portfolio Manager
	Financial Adviser	--
	Securities Adviser	--
Northwest Territories	Investment Counsel	Portfolio Manager
	Portfolio Manager	Portfolio Manager
	Investment Counsel / Portfolio Manager	Portfolio Manager
Nova Scotia	Investment Counsel	Portfolio Manager
	Portfolio Manager	Portfolio Manager
	Securities Adviser	--
Nunavut	Investment Counsel	Portfolio Manager
	Portfolio Manager	Portfolio Manager
	Investment Counsel / Portfolio Manager	Portfolio Manager
Ontario	Investment Counsel	Portfolio Manager with applicable conditions on a case-by-case basis
	Portfolio Manager	Portfolio Manager
	Extra Provincial Investment Counsel & Portfolio Manager	Portfolio Manager
	Non-Canadian Investment Counsel & Portfolio Manager	Portfolio Manager
	International Adviser	Portfolio Manager (operating under OSC Rule 35-502 conditions for International Advisers)
	Securities Adviser	--
Prince Edward Island	Investment Counsel	Portfolio Manager
	Portfolio Manager	Portfolio Manager
	Securities Adviser	--
Québec	Unrestricted Practice Adviser	Portfolio Manager
	Unrestricted Practice Adviser (International Financial Centre)	Portfolio Manager
	Restricted Practice Adviser	Restricted Portfolio Manager

Saskatchewan	Investment Counsel	Portfolio Manager
	Portfolio Manager	Portfolio Manager
	Securities Adviser	--
Yukon	Broker - Investment Counsel	Portfolio Manager

Conversion of individuals

Under Regulation 31-103, if an individual is trading or advising, this registration category would be either dealing representative or advising representative. If the individual also holds the position of an officer or partner of the firm, this position would be reflected on NRD as a separate designation (see column on far right of chart).

	Existing Category	**New Category**	**Position**
Alberta	Officer (trading)	Dealing Representative	Officer
	Partner (trading)	Dealing Representative	Partner
	Salesperson	Dealing Representative	
	Officer (advising)	Advising Representative	Officer
	Partner (advising)	Advising Representative	Partner
	Advising Employee	Advising Representative	
	Junior Officer (advising)	Associate Advising Representative	Officer
British Columbia	Salesperson	Dealing Representative	
	Trading Partner	Dealing Representative	Partner
	Trading Director	Dealing Representative	Director
	Trading Officer	Dealing Representative	Officer
	Advising Employee	Advising Representative	
	Advising Partner	Advising Representative	Partner
	Advising Director	Advising Representative	Director
	Advising Officer	Advising Representative	Officer
Manitoba	Salesperson	Dealing Representative	
	Branch Manager	Dealing Representative	
	Trading Partner	Dealing Representative	Partner
	Trading Director	Dealing Representative	Director
	Trading Officer	Dealing Representative	Officer
	Advising Employee	Advising Representative	
	Advising Officer	Advising Representative	Officer
	Advising Director	Advising Representative	Director
	Advising Partner	Advising Representative	Partner
	Associate Advising Officer	Associate Advising Representative	Officer
	Associate Advising Director	Associate Advising Representative	Director
	Associate Advising Partner	Associate Advising Representative	Partner
	Associate Advising Employee	Associate Advising Representative	
New Brunswick	Salesperson	Dealing Representative	
	Officer (trading)	Dealing Representative	Officer
	Partner (trading)	Dealing Representative	Partner
	Representative (advising)	Advising Representative	
	Officer (advising)	Advising Representative	Officer
	Partner (advising)	Advising Representative	Partner
	Sole Proprietor (advising)	Advising Representative	
	Associate Officer (advising)	Associate Advising Representative	Officer
	Associate Partner (advising)	Associate Advising Representative	Partner

	Associate Representative (advising)	Associate Advising Representative	
Newfoundland & Labrador	Salesperson	Dealing Representative	
	Officer (trading)	Dealing Representative	Officer
	Partner (trading)	Dealing Representative	Partner
	Officer (advising)	Advising Representative	Officer
	Partner (advising)	Advising Representative	Partner
Northwest Territories	Salesperson	Dealing representative	
	Officer (trading)	Dealing representative	Officer
	Partner (trading)	Dealing representative	Partner
	Representative (advising)	Advising Representative	
	Officer (advising)	Advising Representative	Officer
	Partner (advising)	Advising Representative	Partner
Nova Scotia	Salesperson	Dealing Representative	
	Officer - trading	Dealing Representative	Officer
	Partner - trading	Dealing Representative	Partner
	Director - trading	Dealing Representative	Director
	Officer - advising	Advising Representative	Officer
	Officer - counselling	Advising Representative	Officer
	Partner - advising	Advising Representative	Partner
	Partner - counselling	Advising Representative	Partner
	Director - advising	Advising Representative	Director
	Director - counselling	Advising Representative	Director
Nunavut	Salesperson	Dealing representative	
	Officer (trading)	Dealing representative	Officer
	Partner (trading)	Dealing representative	Partner
	Representative (advising)	Advising Representative	
	Officer (advising)	Advising Representative	Officer
	Partner (advising)	Advising Representative	Partner
Ontario	Salesperson	Dealing representative	
	Officer (trading)	Dealing representative	Officer
	Officer (non-trading)	--	Officer
	Partner (trading)	Dealing representative	Partner
	Partner (non-trading)	--	Partner
	Advising Representative	Advising Representative	
	Officer (advising)	Advising Representative	Officer
	Officer (non-advising)	--	Officer
	Partner (advising)	Advising Representative	Partner
	Partner (non-advising)	-- eliminated under Regulation 31-103 --	Partner
	Associate Advising Representative	Associate Advising Representative	
	Associate Advising Officer	Associate Advising Representative	Officer
	Director	--	Director
	Sole Proprietor	Dealing representative or Advising Representative	
Prince Edward Island	Salesperson	Dealing representative	
	Officer (trading)	Dealing representative	
	Partner (trading)	Dealing representative	
	Counselling Officer (officer)	Advising Representative	
	Counselling Officer (partner)	Advising Representative	

	Counselling Officer (other)	Advising Representative	
Québec	Representative	Dealing representative	
	Representative – Group-Savings Plan (salesperson)	Dealing representative	
	Representative – Scholarship Plan (salesperson)	Dealing representative	
	Representative (portfolio manager)	Advising Representative	
	Representative (advising)	Advising Representative	
	Representative Options	Advising Representative	
	Representative Futures	Advising Representative	
Saskatchewan	Officer (trading)	Dealing representative	Officer
	Partner (trading)	Dealing representative	Partner
	Salesperson	Dealing representative	
	Officer (advising)	Advising Representative	Officer
	Partner (advising)	Advising Representative	Partner
	Employee (advising)	Advising Representative	
	Junior Advising Representative (under Saskatchewan Local Policy 34-701 *Registration of Individuals as Investment Counsel*)	Associate Advising Representative	
Yukon	Salesperson	Dealing representative	
	Officer (trading)	Dealing representative	Officer
	Partner (trading)	Dealing representative	Partner
	Sole proprietor (trading)	Dealing representative	
	Representative (advising)	Advising Representative	
	Officer (advising)	Advising Representative	Officer
	Partner (advising)	Advising Representative	Partner

Appendix B - Transition Timelines

Firms registered prior to September 28, 2009 (Effective Date of Regulation 31-103)

Requirement	**Investment Dealer (IIROC members)**	**Mutual Fund Dealer (MFDA members[5])**	**Scholarship Plan Dealer**	**Exempt Market Dealer (ON & NL only)**	**Portfolio Manager**
Firms must apply for registration for their Ultimate Designated Person	3 months	3 months	3 months	3 months	3 months
Firms must apply for registration for their Chief Compliance Officer	3 months	3 months	3 months	3 months	3 months
Firms must satisfy new insurance requirements	SRO rules apply	SRO rules apply[6]	6 months[7]	6 months	6 months
Firms must have policies for referral arrangements	6 months	6 months	6 months	6 months	6 months
Firms must satisfy new capital requirements	SRO rules apply	SRO rules apply[2]	12 months	12 months	12 months
Firms must provide clients with relationship disclosure information	SRO rules apply	SRO rules apply[8]	12 months	12 months	12 months
Firms must satisfy requirement for client statements	No exemption for IIROC and no transition	24 months	No transition available	No transition available	No transition available
Firms must have policies and procedures for complaint handling[9]	24 months	24 months	24 months	24 months	24 months

5 Mutual fund dealers registered in Québec only are not required to be MFDA members.
6 N/A for mutual fund dealers registered in Québec only.
7 The new insurance requirements do not apply to scholarship plan dealers registered in Québec only.
8 Mutual fund dealers registered in Québec only must comply with the requirement in Regulation 31-103.
9 No transition applies in Québec in respect of complaint handling.

Representatives must satisfy new proficiency requirements	SRO rules apply	Grandfathered	12 months	12 months	Grandfathered
Chief Compliance Officers must satisfy new proficiency requirements	SRO rules apply	Grandfathered	Grandfathered	12 months	Grandfathered

Appendix F

Adoption of the Regulation and consequential amendments

The Regulation will constitute the primary means for regulating registration requirements. However, other regulations – including Regulation 33-109 and Regulation 33-102 (referred to below), which relate to the national instrument database (NRD) – also apply to registrants. Registrants should refer to the securities legislation of their local jurisdiction and to other CSA instruments for additional requirements that may apply to them.

Adoption of the Regulation

The Regulation will be implemented as:

- a rule in each of Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, New Brunswick, Ontario and Prince Edward Island

- a regulation in each of Québec, the Northwest Territories, Nunavut and the Yukon Territory

- a commission regulation in Saskatchewan

The Policy Statement will be adopted as a policy in each of the jurisdictions represented by the CSA.

In Ontario, the Regulation, consequential amendments and other required materials were delivered to the Minister of Finance on July 15, 2009. The Minister may approve or reject the Regulation or return it for further consideration. If the Minister approves the Regulation (or does not take any further action) and the relevant part of Schedule 26 of the *Budget Measures Act, 2009* is proclaimed in force by September 28, 2009, the consequential amendments will come into force on that date.

In Québec, the Regulation is a regulation made under section 331.1 of *The Securities Act* (Québec) and must be approved, with or without amendment, by the Minister of Finance. The Regulation will come into force on the date of its publication in the *Gazette officielle du* Québec or on any later date specified in the regulation. It is also published in the Bulletin of the Autorité des marchés financiers.

In British Columbia, the implementation of the Regulation and consequential amendments are subject to ministerial approval. Provided all necessary approvals are obtained, British Columbia expects the Regulation and consequential amendments to come into force on September 28, 2009.

Concurrently with the Regulation, we are publishing consequential amendments to certain related regulationss.

Legislative amendments

Some core elements of the registration regime are set out in the securities legislation in each jurisdiction.

In Ontario, related amendments to the *Securities Act* (Ontario) contained in Schedule 26 of the *Budget Measures Act, 2009*, including amendments that are required to implement the Regulation, come into force on proclamation. Certain provisions of the *Securities Act* (Ontario), as amended, apply instead of provisions in the Regulation. These provisions are thus stated in the Regulation to not apply in Ontario. Effectively, these provisions become law in Ontario through amendments to the *Securities Act* (Ontario) and not through the Regulation, and are identified by the text boxes in the Regulation.

Consequential amendments to national instruments

CSA instruments governing registration and registrants will be repealed or amended as necessary as described in Appendix G. In addition to the consequential amendments described in this Notice,

- we are publishing, by way of a separate notice being published concurrently with this Notice, amendments to the regulations relating to NRD, namely *Regulation 31-102 respecting National Registration Database* (Regulation 31-102) and Policy Statement 31-102, and *Regulation 33-109 respecting Registration Requirements* (Regulation 33-109) and Policy Statement 33-109, as well as several forms

- we are amending Regulation 45-106, which is being published under a separate notice (CSA 45-106 Notice) concurrently with this Notice, to reflect, among other things, the adoption of the business trigger for dealer registration and the transition from the exemptions regime under Regulation 45-106 to the exemptions regime under the Regulation

We are amending and revoking, rescinding or repealing national instruments, multilateral instruments and policy statements as set out in Appendix G, effective upon the coming into force of the Regulation.

Appendix G

Consequential changes to national instruments, multilateral instruments and policy statements

Substance and purpose of consequential changes to national instruments, multilateral instruments and policy statements

The amendment instruments provide for changes that mostly reflect new terminology used in, and the relocation of subject matter to, the Regulation. The revocation instruments provide for the elimination of regulations and policy statements on the basis that the subject matter of the regulation or policy statement is now addressed in the Regulation. This summary does not provide a complete list of all changes. The following summarizes the more significant changes.

The full text of the corresponding amending and revoking instruments is published with this notice.

Summary of amendments

Regulation 14-101 respecting Definitions

The new term "investment fund manager registration requirement" is added to reflect the adoption of a registration requirement for investment fund managers. The terms "dealer registration requirement" and "registration requirement" are changed to reflect the adoption of a "business trigger" in the dealer registration requirement of most jurisdictions.

Regulation 24-101 respecting Institutional Trade Matching and Settlement and Policy statement 24-101

The term "registrant, which is re-termed "registered firm", has been revised so that it continues to refer to just registered dealers and advisers (and does not include the new category of registered investment fund manger).

Regulation 33-105 respecting Underwriting Conflicts and Policy Statement to Regulation 33-105 respecting Underwriting conflicts

The term "registrant", which is re-termed "specified firm registrant", has been revised so that it does not refer to persons registered, or required to be registered, in the new category of "registered investment fund manager".

Regulation 81-102 respecting Mutual Funds

The amendments to this regulation update relevant cross-references.

Regulation 81-107 respecting Independent Review Committee for Investment Funds

The amendments to this regulation update relevant section references.

Revocation or rescission of regulations and policy statements

The following instruments are revoked or rescinded on the date that the Regulation comes into force, on the basis that their subject matter is subsumed in the Regulation:

- *Regulation 11-101 respecting Principal Regulator System*
- *Policy Statement to Regulation 11-101 respecting Principal Regulator System*.

- *National Instrument 33-102 Regulation of Certain Registrant Activities*
- *Companion Policy 33-102CP Regulation of Certain Registrant Activities*
- National Policy 34-201 Breach of Requirements of Other Jurisdictions