

## Proposed Amendments

Securities Act

(chapter V-1.1, s. 274, s. 331.1, pars. (11) and (26) and s. 331.2)

### **Regulation to amend Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations – Amendments relating to the transition for Québec mutual fund dealers to the New SRO**

Notice is hereby given by the Autorité des marchés financiers (the “AMF” or the “Authority”) that, in accordance with section 331.2 of the *Securities Act*, CQLR, c. V-1.1, the following regulation, the text of which is published hereunder, may be made by the AMF and subsequently submitted to the Minister of Finance for approval, with or without amendment, after 30 days have elapsed since its publication in the Bulletin of the Authority:

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

Draft amendments to the following policy statement are also published hereunder:

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

The proposed amending regulation and amendments to the policy statement are collectively referred to as the **Proposed Amendments**.

The Proposed Amendments set out the transitional provisions required to ensure that mutual fund dealers registered in Québec (“Québec MFDs”) become members of the new self-regulatory organization (“New SRO”) in order to begin implementation of the proposed transition plan for oversight of the mutual fund sector in Québec.

## Purpose

Following consultations, the Canadian Securities Administrators (the “CSA”) published, on August 3, 2021, CSA Position Paper 25-404 *New Self-Regulatory Organization Framework* (“Position Paper 25-404”) recommending the establishment of a new self-regulatory organization consolidating the activities of the Investment Industry Regulatory Organization of Canada (“IIROC”) and the Mutual Fund Dealers Association of Canada (“MFDA”).

As described in greater detail in CSA Staff Notice and Request for Comment 25-304 – *Application for Recognition of New Self-Regulatory Organization* (“CSA Consultation”), published simultaneously with this notice, the AMF will recognize the New SRO in the same way as the other CSA members to ensure harmonized oversight of firms registered as investment dealers and mutual fund dealers as well as the individuals registered in the dealing representative of an investment dealer and dealing representative of a mutual fund dealer categories who act on their behalf.<sup>1</sup>

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<sup>1</sup> Refer, in particular, to section 21 of the terms and conditions of the Draft Recognition Order for the New SRO in Appendix B of CSA Staff Notice and Request for Comment 25-304 – Application for Recognition of New Self-Regulatory Organization.

The AMF agrees with the CSA that a new, single SRO, consolidating the activities of IIROC and the MFDA and with an enhanced governance structure, is in the best interests of investors and the financial industry.

### **Transition for Québec MFDs**

At present, firms carrying on activities as mutual fund dealers in Québec are required to register with the AMF. Firms also carrying on such activities in other Canadian provinces or territories are required to be members of the MFDA under the regulations applicable outside Québec.

The AMF is of the opinion that, upon recognition of the New SRO and in accordance with the proposed transitional provisions, all mutual fund dealers in Québec will be required to become members of the New SRO and comply with its rules, mainly as of the closing date of the transition phase (the “Transition Phase Closing Date”).

The recognition of the New SRO by the AMF will not affect the mandate, functions and powers of the Chambre de la sécurité financière (“CSF”), which are set out in the *Act respecting the distribution of financial products and services*, CQLR, c. D-9.2 (“Distribution Act”).

The AMF is ultimately anticipating the following opportunities and benefits for mutual fund dealers:

- The compliance burden of firms that hold both a mutual fund dealer registration and an investment dealer registration will potentially be reduced,<sup>2</sup> since such firms will be overseen by a single SRO and will be able to consolidate their activities under one legal entity and maintain a single compliance system.
- Because mutual fund dealer oversight will be harmonized with oversight in other Canadian jurisdictions, dealers operating solely in Québec will now have access to a broader range of back-office and compliance services as well as a host of technological solutions for modernizing and optimizing their operations;
- Both harmonized oversight and access to an ecosystem of specialized services have the potential to increase mutual dealers’ competitiveness by, in particular, facilitating the integration of new products, such as exchange-traded funds, into their product offerings and enabling them to more easily benefit from business opportunities and expand into other Canadian jurisdictions.

The AMF, the New SRO and the CSF will coordinate their efforts and actions to enforce the regulatory provisions. The AMF intends to establish a cooperation arrangement with the New SRO and the CSF for this purpose and to ensure that regular and effective discussions are held between these organizations.

### **Transition plan for Québec MFD membership in the New SRO**

The Proposed Amendments implement the transitional provisions requiring Québec MFDs to become members of the New SRO upon recognition thereof.

The AMF is of the opinion that Québec MFDs should be transitioned to the New SRO in two phases (transition phase and permanent phase), on the following terms and conditions:

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<sup>2</sup> According to the AMF’s registers as at May 31, 2021, 37% (26) of mutual fund dealers are held by a financial group and their dealing representatives represent 84% of all registered dealing representatives in Québec.

**Transition phase:** Effective January 1, 2023, for their activities in Québec,

Québec MFDs will:

- become members of the New SRO;
- not be subject to the rules of the New SRO, except for its operating rules;
- continue to be subject to the regulatory framework currently applicable in Québec, including Regulation 31-103;
- be able to participate in the work of the New SRO's committees and in its consultations;
- continue to be overseen by the AMF;
- pay reduced membership fees to the New SRO proportionate to the services it will offer;
- not have to contribute to the new investor protection fund of the New SRO but continue to contribute to the Fonds d'indemnisation des services financiers ("FISF");

and their dealing representatives will:

- continue to be required to be members of the CSF but not be required to be authorized by the New SRO.

The transition phase will ensure that Québec MFDs are able to participate in the work of the New SRO's committees and its consultations as of January 1, 2023, including work on developing the New SRO's revised rules, which will apply to them following the transition phase, and that they have sufficient time to make the necessary changes to their systems so they are fully integrated with the New SRO. This will provide Québec MFDs, including smaller dealers and multidisciplinary firms, with the opportunity to, among other things, share concerns specific to their circumstances and business models so that those concerns may be adequately reflected in the New SRO's revised rules.

In order to facilitate Québec MFD membership in the New SRO during the transition phase, and considering the strict legislative and regulatory framework planned for registrants, the amendments provide that mutual fund dealers registered in Québec are deemed to fulfill the requirement to be a member of the New SRO as of January 1, 2023.

**Permanent phase:** This phase will begin on the later of:

- (i) the implementation date of the New SRO's harmonized rule book,
- (ii) the date that is one year after AMF approval of the New SRO's harmonized rule book

or on any other date determined by the AMF, on a consultative basis (the Transition Phase Closing Date). As of that date, Québec MFDs will be subject to the same oversight as MFDs in the other Canadian jurisdictions, while taking into account features specific to the framework applicable to the mutual fund sector in Québec, including:

- the mandate, role and responsibilities of the CSF;
- the contribution of Québec MFDs to the FISF and the coverage provided by the fund; and
- the liability insurance requirements applicable to Québec MFDs.

Our wish in proposing the above as the Transition Phase Closing Date is to give Québec MFDs a transition period of at least one year following the adoption of the New SRO's harmonized rule book to make the necessary changes to their systems.

### **Proposed dual registration**

Amendments to the rules of the New SRO will be proposed as part of the CSA consultation to allow registered firms to include their investment dealer and mutual fund dealer businesses within one legal entity. The rules of the New SRO and the regulatory provisions applicable to Québec MFDs, including those set out in Regulation 31-103, will apply to such firms. The dealing representatives of registered firms whose business is limited to mutual funds will be required to register in the dealing representative of a mutual fund dealer category and be members of the CSF. More specific guidance on this matter may be found in the FAQ published by the New SRO as an appendix to the CSA consultation.

### **Next steps**

The AMF plans to consult with market participants again after January 1, 2023 in respect of the amendments to Regulation 31-103 that will be needed to implement the applicable model during the permanent phase.

### **Consultation questions**

We are specifically seeking your comments on the following question:

1. Are there any issues with the proposed Transition Phase Closing Date applicable to Québec MFDs?

### **Consultation**

Comments regarding the above may be made in writing by June 27, 2022, to the following:

M<sup>e</sup> Philippe Lebel  
Corporate Secretary and Executive Director, Legal Affairs  
Autorité des marchés financiers  
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Québec (Québec) G1V 5C1  
Fax: 514-864-6381  
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### **Further information**

Further information is available from:

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