

National Instrument 31-103 *Registration Requirements and Exemptions*

Backgrounder

Registration Reform Project

- The new national instrument is the centrepiece of the “Registration Reform Project”. This is largest project ever undertaken by the Canadian Securities Administrators (CSA).
- The project involves the harmonization, streamlining and modernization of the different sets of registration rules that exist in each of the provinces and territories.
- Today, securities dealers and advisers must comply with different rules in each Canadian jurisdiction where they are registered to carry on business.
- Under the new regime, a single national instrument will govern their conduct and a single set of rules will lay out the procedures they need to follow to become registered.
- The related passport system and Ontario’s interface with the passport system will mean a single point of contact for registration.
- A more comprehensive and up-to-date registration regime will not only provide for more efficient business operations, it will also help regulators discharge their important investor protection mandate.

Registration

- Securities industry professionals are required to register with the securities commission in each province or territory where they do business.
- Securities commissions have mandates to protect investors and foster fair and efficient capital markets. Registrants are screened for integrity, proficiency and solvency. They are registered in categories according to the type of business they do and must conduct business in compliance with regulations enforced by the commissions.
- The new registration regime published today will provide Canada-wide rules for the conduct of registrants and regulatory procedures they must follow.

History, goals and substance of Project

- The first concept paper for the registration reform project was published in February 2006.
- Rule proposals were published for comment in February 2007 and February 2008, with extensive consultation undertaken at each stage.
- A better system of registration requirements will help ensure investor protection and foster a more efficient business environment.
- Until now, the rules for the conduct of registrants were different for each province and contained in various rules within provinces. Now there will be basically just one set of rules.

- Harmonizing and streamlining regulations in this way will make it easier to regulate to a common standard across the country and easier for registrants to comply with the regulations.
- Some registration requirements needed to be modernized to reflect new concerns or new regulatory approaches. The new national instrument also addresses this need.
- The reforms will directly impact the approximately 2,000 firms and 130,000 individuals who are registered today.

Investor protection

- Investors often rely heavily on registrants.
- Examples of enhanced investor protection under the new registration regime:
 - A key element of the new regime is fostering a culture of compliance.
 - CEOs will have to register as the “ultimate designated person” who is responsible for the existence of an effective compliance system at their firms.
 - Firms must also register a chief compliance officer who will be responsible for day-to-day operation of the compliance system.
 - Those who administer investment funds (e.g. mutual funds) will be required to register for the first time (these are called “investment fund managers”).
 - Dealers who sell securities under certain exemptions from the usual requirements under securities regulations will have to register for the first time (these are called “exempt market dealers”; currently only Ontario and Newfoundland and Labrador have a similar requirement but it is less comprehensive).
 - There are new requirements for referral arrangements, handling investor complaints and risk-based capital and insurance.
 - There are expanded requirements for consumer disclosure, and disclosing and addressing conflicts of interest.
 - There are higher proficiency requirements for some registration categories.

Business efficiency

- Examples of fostering efficient business environment under the new registration regime:
 - Common requirements across Canada for the first time.
 - Over 30 individual categories of registration will be reduced to five and 60 firm categories reduced to eight.
 - Registered individuals will be able to transfer automatically between employers as long as no concerns are raised on their conduct.
 - Firms will no longer have to renew their registration every year
 - Rules will be more flexible in some areas with a less prescriptive approach in recognition that registered firms vary greatly in their size and the range of business they undertake.
 - New registration categories accommodate specialized operations.
 - The requirement to register for dealers will be driven by whether or not they are actually in the business of trading securities (this is called the “business trigger”) – instead of today’s sometimes very technical requirement that can capture trading activity incidental to a firm’s primary business.

Streamlined procedures

- In addition to NI 31-103, the registration reform project includes revisions to the rules that govern registration procedures.
- Efficiencies for industry have been achieved with the removal of regulatory burdens that do not enhance investor protection.
- Registration procedures are set out in the National Registration Database (NRD) rules, which have been amended, and in the passport system and Ontario's passport interface.
- The passport system allows individuals and firms to register in more than one province or territory by dealing only with the "principal regulator". Although Ontario is not adopting the passport system, it can be a principal regulator under that system. This means Ontario-based registrants only need to deal with the OSC, even when they are also active in other parts of Canada. The CSA has also today issued a press release concerning the publication of the passport rules.

Securities Act amendments

- Provinces and territories have amended their Securities Acts to accommodate the new registration regime in their legislative framework. Most recently, Ontario has adopted such amendments in its budget bill that received Royal Assent in June and have now been proclaimed into force (Bill 162, the *Budget Measures Act, 2009*). Quebec adopted the Act amendments in its Bill 8 (*an Act to amend the Securities Act and other legislative provisions*), also assented in June and now proclaimed into force.

Transition to new regime

- Guidance to the industry on how the new registration regime will be implemented by regulators is set out in CSA Notice 31-311 *Transition into new Registration Regime under NI 31-103*, which was published on June 12, 2009.