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# NOTICE OF NATIONAL INSTRUMENT 31-103 REGISTRATION REQUIREMENTS AND EXEMPTIONS

## CSA Notice of Rule, Companion Policy and Consequential Amendments to Related Instruments

### Introduction

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

Adopting the Instrument 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 Instrument, 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 Multilateral Instrument 11-102 *Passport System* (MI 11-102) and passport interface with Ontario under National Policy 11-204 *Process for Registration in Multiple Jurisdictions* (NP 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 Instrument
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 Instrument
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 Proposed National Instrument 31-103 *Registration Requirements and Exemptions - Transition into the new registration regime*
- Appendix F *Adoption of the Instrument and consequential amendments*
- Appendix G *Consequential changes to national instruments, multilateral instruments and companion policies*
- Appendix H *Consequential Changes to local regulations, rules, instruments, notices, and policies*

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

## 1. Purpose of the Instrument

The Instrument 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 Instrument is intended to strike an appropriate balance between providing an efficient system for registrants and protecting investors.

We think that the Instrument 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 Instrument sets out higher proficiency standards for some registrants and introduces requirements relating to complaint handling and dispute resolution. The Instrument also addresses conflicts of interest and enhances solvency requirements. A key emphasis in the Instrument 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 Rule combines principles, supported by guidance in the Companion Policy, with prescriptive elements, where appropriate.

We reorganized the Instrument 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

Companion Policy in accordance with the Rule. The section numbers in the Companion Policy match those of the corresponding provisions in the Rule, to allow for easy reference.
We will monitor the implementation of the Instrument, and we will propose amendments to the Instrument if investor protection, market efficiency or other regulatory concerns arise.

## 2. Feedback on the 2008 Proposal

The Instrument 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 Instrument. We concluded that these changes do not require the CSA to publish the Instrument 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 Instrument, the passport system and passport interfaces with Ontario, and securities legislation and instruments in all the provinces and territories.

The Instrument 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 Rule, 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 Companion Policy 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 Instrument, 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 Rule 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 Instrument 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<br>• Mutual fund dealer<br>• Scholarship plan dealer<br>• Exempt market dealer (new)<br>• Restricted dealer (new) | • Portfolio manager<br>• 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 National Instrument 45-106 *Prospectus and Registration Exemptions* (NI 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 NI 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 National Instrument 81-102 *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 Instrument, 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 Rule 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 National Instrument 33-109 *Registration Information* (NI 33-109) to submit regulatory filings to regulators. The definition of *permitted individual* in NI 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.<br><br>• **Exemptions based on investor relationship.** Some exemptions have been retained, for example, for reinvestment plans.<br><br>• **Exemptions based on low relative risk and/or public policy.** Some exemptions have been retained, for example, specified debt.<br><br>• **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.<br><br>• **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.<br><br>• **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.<br><br>• **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 NI 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 Instrument contains requirements for relationship and conflicts disclosure.

***Relationship disclosure***
An outcome-based provision in the Rule 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 Instrument 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 Instrument.

**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 Rule 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 Instrument 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 Instrument.

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 Rule 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 Companion Policy.

## 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 NI 33-109 and National Instrument 31-102 *National Registration Database* (NI 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 Instrument 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 (National Policy 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 Instrument.

**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 Proposed National Instrument 31-103 *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 NI 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 Instrument 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 NI 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 Instrument and the adoption of consequential MFDA rule amendments.

## 8. Legislative amendments and adoption of the Instrument

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 Instrument. It also indicates how the Instrument is implemented or adopted in each province or territory.

## 9. Consequential amendments

Appendices G and H to this Notice summarize the changes we are making to national instruments and securities laws in your province or territory as a result of implementing the Instrument and the passport system. The amendment instruments mostly reflect new terminology used in, and the relocation of subject matter to, the Rule. The revocation instruments eliminate instruments and policies because the subject matter is now addressed in the Rule.

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

## 10. Where to find more information

The Instrument 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

NI 33-109, NI 31-102 and MI 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:

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July 17, 2009