CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

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 • 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 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.	• **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.

• **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.**	• **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 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

Appendix A

Summary of comments and responses on the 2008 Proposal

This appendix summarizes the written public comments we received on proposed National Instrument 31-103 *Registration Requirements* (the Rule), Companion Policy 31-103CP (the Companion Policy) and the proposed forms under National Instrument 33-109 *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 Rule, the Companion Policy 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 Rule

General comments

Harmonization issues
All jurisdictions are adopting the Rule, 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 Rule 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 or company 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 or company 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 Rule, 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 or company 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 Rule 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 Rule into the *Securities Act* (Ontario). As a result, certain provisions of the Rule are stated not to apply in Ontario and explanatory notes have been inserted in the Rule. However, the provisions that will be adopted in the *Securities Act* (Ontario) are not materially different from those that appear in the Rule.

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 Rule. 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 or company 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 NI 45-106 *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 Companion Policy discussion of IFMs of limited partnerships.

- We have provided a temporary two-year exemption in the Rule 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 Rule 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 Rule. 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 Companion Policy 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 Rule, 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 Rule, 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 Rule and Companion Policy, 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 Companion Policy discussion. IIROC Rule 38 will be amended to conform to the Rule.

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 Rule. 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 Rule 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 Rule

- 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 Rule.

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 Companion policy 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 Rule 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 Rule 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 NI 81-102 *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 Rule. 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 Rule 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 Companion Policy, 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 Companion Policy 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 Rule 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 Rule 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 Rule. This forms part of the review of each individual's fitness for registration.

As stated in the Companion Policy, 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 Rule if and when we approve new examinations.

Representatives of mutual fund dealers
We have been asked to further explain the inclusion in the Rule of the proficiency requirements for representatives of mutual fund dealers. The proficiency requirements in the Rule and those of the MFDA are identical for mutual fund dealer representatives. We have included them in the Rule 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 Rule 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 Rule 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 Companion Policy 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 Rule 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 Rule 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 Rule. We are working with the SROs to harmonize the complaint handling regime with a view to implementing substantially identical provisions, both in the Rule 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 Rule but we provide no detailed guidance in the Companion Policy. When this harmonization work is completed, the CSA will prepare amendments to the Rule and the Companion Policy 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 Rule.

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 Companion Policy.

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 Rule are not excessive.

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

Client account reporting

Trade confirmations
A commenter recommended that the Rule 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 NI 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 Rule. 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 Rule and should be consistent with that of the IDA. We disagree, since this provision of the Rule 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 Rule.

- 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 Rule 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 Companion Policy 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 Companion Policy 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 Rule 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 Rule.

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 Rule.

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 Rule. 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 or company has more than a minimal presence in a local jurisdiction, the person or company should register in that jurisdiction.

International dealers and advisers
One commenter indicated that the definition of international dealer set out in the Rule 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 NI 33-109 *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 Proposed National Instrument 31-103 *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 Rule a provision on the protection of existing relief.

Responses to comments received on 31-103 CP

Business trigger factors
We received comments to the effect that the business trigger guidance in the Companion Policy 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 or company 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 Companion Policy. We have substantially revised the discussion of venture capital in the business trigger part of the Companion Policy. 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 Companion Policy, 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 or company 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 Companion Policy.

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

We reorganized the Instrument 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 Rule into four functional areas:

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

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

Companion Policy 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 Companion Policy 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. • 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.	• 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 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 NI 45-106 *Prospectus and Registration Exemptions* (NI 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 or company 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 or company" 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 Companion Policy that is derived from Companion Policy 45-106 CP 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	• 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.

	be an investment fund manager chief compliance officer	

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 Instrument 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 Rule. We have renamed the Rule to *Registrant Requirements and Exemptions* to reflect this change. NI 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 NI 45-106:

- individuals acting for investment fund managers - this exemption is new, and has no predecessor exemption in NI 45-106
- person or company 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 NI 45-106
- private investment fund - loan and trust pools - this exemption is new, and has no predecessor exemption in NI 45-106

Sub-adviser exemption
We have not carried forward the sub-adviser exemption in the final version of the Rule. 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 Companion Policy 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 National Instrument 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 Companion Policy 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 Rule.

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 Companion Policy 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 Rule. We revised the Rule 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 Companion Policy

We revised the guidance in the Companion Policy 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 Companion Policy to the Rule. • Disclosure about related and connected issuers is now an example of disclosure in the Companion Policy. 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 fairly, and not the actual fairness policies, which may be difficult for clients to understand. Moved within Rule to Part 14 *Handling client accounts – firms.*	• Guidance in the Companion Policy on individuals disclosing material conflicts to their sponsoring firms. • Guidance on managed account transactions in the Companion Policy. • 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 Companion Policy on 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 Rule only the provisions that are harmonized according to the framework. We will incorporate the remainder of the complaint handling framework through amendments to the Instrument. 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 Rule 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 Companion Policy 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	• Scholarship plan dealers will deliver annual client statements.	• The contents of all client statements have been harmonized.

month. • SRO members are not subject to the CSA requirement to deliver trade confirmations because they are subject to SRO rules instead.		

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 Rule. We have not shortened any of the transition periods published in the 2008 Proposal.

APPENDIX C
CONCORDANCE OF CHANGES TO THE 2008 PROPOSAL

NATIONAL INSTRUMENT 31-103
REGISTRATION REQUIREMENTS AND EXEMPTIONS
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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 National Instrument 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 NI 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 NI 31-103.

APPENDIX E

CSA STAFF NOTICE 31-311

PROPOSED NATIONAL INSTRUMENT 31-103
REGISTRATION REQUIREMENTS AND EXEMPTIONS
TRANSITION INTO THE NEW REGISTRATION REGIME

Proposed National Instrument 31-103 *Registration Requirements and Exemptions* (**NI 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 NI 31-103 and expect to publish it in its final form, on or about July 17, 2009. Subject to ministerial approvals in some jurisdictions, NI 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 NI 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 NI 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 NI 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 NI 31-103; and
- existing forms to the proposed revised forms under proposed revised National Instrument 33-109 *Registration Information* (**NI 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 NI 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 NI 31-103 comes into force?

CSA staff would use their best efforts to process applications submitted before NI 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 NI 33-109.

- Firms and individuals applying for registration would be required to comply with the new requirements under NI 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 NI 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 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.	• 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 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 NI 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 NI 31-103. This would mean the firm is no longer registered.

Conversion to permitted individual status

Under NI 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 NI 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 <u>one</u> 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 NI 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 NI 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 NI 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 NI 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 NI 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*

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

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 NI 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 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 NI 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 NI 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 NI 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 NI 31-103

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.

[4] Alberta category only.

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 NI 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 NI 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 NI 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:

Alberta

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Alberta Securities Commission
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British Columbia

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Registration Supervisor
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Manitoba

Isilda Tavares
Registration Officer, Deputy Director
Manitoba Securities Commission
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New Brunswick

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New Brunswick Securities Commission
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Newfoundland & Labrador

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June 12, 2009

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 NI 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 **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	
Ontario	Officer (advising)	Advising Representative	Officer
	Officer (non-advising)	--	Officer
	Partner (advising)	Advising Representative	Partner
	Partner (non-advising)	-- eliminated under NI 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 NI 31-103)

Requirement	Investment Dealer (IIROC members)	Mutual Fund Dealer (MFDA members[1])	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[2]	6 months[3]	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[4]	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[5]	24 months	24 months	24 months	24 months	24 months
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

1 Mutual fund dealers registered in Québec only are not required to be MFDA members.

2 N/A for mutual fund dealers registered in Québec only.

3 The new insurance requirements do not apply to scholarship plan dealers registered in Québec only.

4. Mutual fund dealers registered in Québec only must comply with the requirement in Regulation 31-103.

5 No transition applies in Québec in respect of complaint handling.

Appendix F

Adoption of the Instrument and consequential amendments

The Instrument will constitute the primary means for regulating registration requirements. However, other instruments – including NI 33-109 and NI 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 Rule

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

In Ontario, the Rule, consequential amendments and other required materials were delivered to the Minister of Finance on July 15, 2009. The Minister may approve or reject the Rule or return it for further consideration. If the Minister approves the Rule (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 Instrument 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 Instrument 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 Instrument and consequential amendments are subject to ministerial approval. Provided all necessary approvals are obtained, British Columbia expects the Rule and consequential amendments to come into force on September 28, 2009.

Concurrently with the Instrument, we are publishing consequential amendments to certain related instruments.

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 Rule, come into force on proclamation. Certain provisions of the *Securities Act* (Ontario), as amended, apply instead of provisions in the Rule. These provisions are thus stated in the Rule to not apply in Ontario. Effectively, these provisions become law in Ontario through amendments to the *Securities Act* (Ontario) and not through the Rule, and are identified by the text boxes in the Rule.

Consequential amendments to national instruments

CSA instruments and local rules governing registration and registrants will be repealed or amended as necessary as described in Appendix G and Appendix H. 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, accessible at www.osc.gov.on.ca, amendments to the instruments relating to NRD, namely National Instrument 31-102 *National Registration Database* (NI 31-102) and Companion Policy 31-102CP, and National Instrument 33-109 *Registration Requirements* (NI 33-109) and Companion Policy 33-109CP, as well as several forms

- we are amending NI 45-106, which is being published under a separate notice (CSA 45-106 Notice) concurrently with this Notice, accessible at www.osc.gov.on.ca, to reflect, among other things, the adoption of the business trigger for dealer registration and the transition from the exemptions regime under NI 45-106 to the exemptions regime under the Rule

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

Consequential amendments to Ontario Securities Commission (OSC) instruments

Amendments and revocations, rescissions or repeals of OSC instruments and an explanation of proposed changes to Ontario Regulation 1015, are set out in Appendix H. These changes will generally be effective upon the coming into force of the Rule.

NATIONAL INSTRUMENT 31-103
REGISTRATION REQUIREMENTS AND EXEMPTIONS

Table of contents

Part 1 Interpretation

1.1 Definitions of terms used throughout this Instrument

In this Instrument

"Canadian financial institution" has the same meaning as in section 1.1 of NI 45-106; *(«institution financière canadienne»)*

"connected issuer" has the same meaning as in section 1.1 of National Instrument 33-105 *Underwriting Conflicts*; *(« émetteur associé »)*

"debt security" has the same meaning as in section 1.1 of NI 45-106; *(« titre de créance »)*

"eligible client" means a client of a person or company if any of the following apply:

(a) the client is an individual and was a client of the person or company immediately before becoming resident in the local jurisdiction;

(b) the client is the spouse or a child of a client referred to in paragraph (a);

(c) except in Ontario, the client is a client of the person or company on September 27, 2009 pursuant to the person or company's reliance on an exemption from the registration requirement under Part 5 of Multilateral Instrument 11-101 *Principal Regulator System* on that date; *(« client admissible »)*

"exempt market dealer" means a person or company registered in the category of exempt market dealer; *(« courtier sur le marché dispensé »)*

"IIROC" means the Investment Industry Regulatory Organization of Canada; *(« OCRCVM »)*

“investment dealer” means a person or company registered in the category of investment dealer; *(«courtier en placement»)*

“managed account” means an account of a client for which a person or company makes the investment decisions if that person or company has discretion to trade in securities for the account without requiring the client’s express consent to a transaction; *(« compte géré »)*

“marketplace” has the same meaning as in section 1.1 of National Instrument 21-101 *Marketplace Operation*; *(«marché »)*

“MFDA” means the Mutual Fund Dealers Association of Canada; *(« ACCFM »)*

“mutual fund dealer” means a person or company registered in the category of mutual fund dealer; *(« courtier en épargne collective »)*

“permitted client” means any of the following:

(a) a Canadian financial institution or a Schedule III bank;

(b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada);

(c) a subsidiary of any person or company referred to in paragraph (a) or (b), if the person or company owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of the subsidiary;

(d) a person or company registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer, other than as a scholarship plan dealer or a restricted dealer;

(e) a pension fund that is regulated by either the federal Office of the Superintendent of Financial Institutions or a pension commission or similar regulatory authority of a jurisdiction of Canada or a wholly-owned subsidiary of such a pension fund;

(f) an entity organized in a foreign jurisdiction that is analogous to any of the entities referred to in paragraphs (a) to (e);

(g) the Government of Canada or a jurisdiction of Canada, or any Crown corporation, agency or wholly-owned entity of the Government of Canada or a jurisdiction of Canada;

(h) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any agency of that government;

(i) a municipality, public board or commission in Canada and a metropolitan community, school board, the Comité de gestion de la taxe scolaire de l’île de Montréal or an intermunicipal management board in Québec;

(j) a trust company or trust corporation registered or authorized to carry on business under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, acting on behalf of a managed account managed by the trust company or trust corporation, as the case may be;

(k) a person or company acting on behalf of a managed account managed by the person or company, if the person or company is registered or authorized to carry on business as an adviser or the equivalent under the securities legislation of a jurisdiction of Canada or a foreign jurisdiction;

(l) an investment fund if one or both of the following apply:

(i) the fund is managed by a person or company registered as an investment fund manager under the securities legislation of a jurisdiction of Canada;

(ii) the fund is advised by a person or company authorized to act as an adviser under the securities legislation of a jurisdiction of Canada;

(m) in respect of a dealer, a registered charity under the *Income Tax Act* (Canada) that obtains advice on the securities to be traded from an eligibility adviser, as defined in section 1.1 of NI 45-106, or an adviser registered under the securities legislation of the jurisdiction of the registered charity**;**

(n) in respect of an adviser, a registered charity under the *Income Tax Act* (Canada) that is advised by an eligibility adviser, as defined in section 1.1 of NI 45-106, or an adviser registered under the securities legislation of the jurisdiction of the registered charity**;**

(o) an individual who beneficially owns financial assets, as defined in section 1.1 of NI 45-106, having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds $5 million**;**

(p) a person or company that is entirely owned by an individual or individuals referred to in paragraph (o), who holds the beneficial ownership interest in the person or company directly or through a trust, the trustee of which is a trust company or trust corporation registered or authorized to carry on business under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction**;**

(q) a person or company, 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**;**

(r) a person or company that distributes securities of its own issue in Canada only to persons or companies referred to in paragraphs (a) to (q); *(« client autorisé »)*

“portfolio manager” means a person or company registered in the category of portfolio manager; *(« gestionnaire de portefeuille »)*

“principal jurisdiction” means

(a) for a person or company other than an individual, the jurisdiction of Canada in which the person or company’s head office is located, and

(b) for an individual, the jurisdiction of Canada in which the individual’s working office is located; *(«territoire principal »)*

“registered firm” means a registered dealer, a registered adviser, or a registered investment fund manager; *(« société inscrite »)*

“registered individual” means an individual who is registered

(a) in a category that authorizes the individual to act as a dealer or an adviser on behalf of a registered firm,

(b) as ultimate designated person, or

(c) as chief compliance officer; *(« personne physique inscrite »)*

“related issuer” has the same meaning as in section 1.1 of National Instrument 33-105 *Underwriting Conflicts*; (*« émetteur relié »*)

“restricted dealer” means a person or company registered in the category of restricted dealer; *(« courtier d’exercice restreint »)*

"restricted portfolio manager" means a person or company registered in the category of restricted portfolio manager; *(« gestionnaire de portefeuille d'exercice restreint »)*

"Schedule III bank" means an authorized foreign bank named in Schedule III of the *Bank Act* (Canada); (*« banque de l'Annexe III »)*

"scholarship plan dealer" means a person or company registered in the category of scholarship plan dealer; *(« courtier en plans de bourses d'études »)*

"sponsoring firm" means the registered firm on whose behalf an individual acts as a dealer, an underwriter, an adviser, a chief compliance officer or an ultimate designated person; *(« société parrainante »)*

"subsidiary" has the same meaning as in section 1.1 of NI 45-106; *(« filiale »)*

"working office" means the office of the sponsoring firm where an individual does most of his or her business. *(« bureau principal »)*

1.2 Interpretation of "securities" in Alberta, British Columbia, New Brunswick and Saskatchewan

In Alberta, British Columbia, New Brunswick and Saskatchewan, a reference to "securities" in this Instrument includes "exchange contracts", unless the context otherwise requires.

1.3 Information may be given to the principal regulator

(1) In this section, "principal regulator" means

(a) for a registered firm whose head office is in a jurisdiction of Canada, the securities regulatory authority or regulator of that jurisdiction, and

(b) for a registered firm whose head office is not in Canada, the securities regulatory authority or regulator of,

(i) if the firm has not completed its first financial year since being registered, the jurisdiction of Canada in which the firm expects most of its clients to be resident at the end of its current financial year, and

(ii) in all other circumstances, the jurisdiction of Canada in which most of the firm's clients were resident at the end of its most recently completed financial year.

(2) Except under the following sections, for the purpose of a requirement in this Instrument to notify the regulator or the securities regulatory authority, the person or company may notify the regulator or the securities regulatory authority by notifying the person or company's principal regulator:

(a) section 8.18 [*international dealer*];

(b) section 8.26 [*international adviser*];

(c) section 11.9 [*registrant acquiring a registered firm's securities or assets*];

(d) section 11.10 [*registered firm whose securities are acquired*].

(3) For the purpose of a requirement in this Instrument to deliver or submit a document to the regulator or the securities regulatory authority, the person or company may deliver or submit the document by delivering or submitting it to the person or company's principal regulator.

Part 2 Categories of registration for individuals

2.1 Individual categories

(1) The following are the categories of registration for an individual who is required, under securities legislation, to be registered to act on behalf of a registered firm:

(a) dealing representative;

(b) advising representative;

(c) associate advising representative;

(d) ultimate designated person;

(e) chief compliance officer.

(2) An individual registered in the category of

(a) dealing representative may act as a dealer or an underwriter in respect of a security that the individual's sponsoring firm is permitted to trade or underwrite,

(b) advising representative may act as an adviser in respect of a security that the individual's sponsoring firm is permitted to advise on,

(c) associate advising representative may act as an adviser in respect of a security that the individual's sponsoring firm is permitted to advise on if the advice has been approved under subsection 4.2(1) [*associate advising representatives – pre-approval of advice*],

(d) ultimate designated person must perform the functions set out in section 5.1 [*responsibilities of the ultimate designated person*], and

(e) chief compliance officer must perform the functions set out in section 5.2 [*responsibilities of the chief compliance officer*].

(3) Subsection (1) does not apply in Ontario.

Note: In Ontario, the same categories of registration for individuals as in subsection 2.1(1) are set out under section 25 of the *Securities Act* (Ontario).

2.2 Client mobility exemption – individuals

(1) The registration requirement does not apply to an individual if all of the following apply:

(a) the individual is registered as a dealing, advising or associate advising representative in the individual's principal jurisdiction;

(b) the individual's sponsoring firm is registered in the firm's principal jurisdiction;

(c) the individual does not act as a dealer, underwriter or adviser in the local jurisdiction other than as he or she is permitted to in his or her principal jurisdiction according to the individual's registration in that jurisdiction;

(d) the individual does not act as a dealer, underwriter or adviser in the local jurisdiction other than for 5 or fewer eligible clients;

(e) the individual complies with Part 13 [*dealing with clients – individuals and firms*];

(f) the individual deals fairly, honestly and in good faith in the course of his or her dealings with an eligible client;

(g) before first acting as a dealer or adviser for an eligible client, the individual's sponsoring firm has disclosed to the client that the individual, and if the firm is relying on section 8.30 [*client mobility exemption – firms*], the firm,

(i) is exempt from registration in the local jurisdiction, and

(ii) is not subject to requirements otherwise applicable under local securities legislation.

(2) If an individual relies on the exemption in this section, the individual's sponsoring firm must submit a completed Form 31-103F3 *Use of Mobility Exemption* to the securities regulatory authority of the local jurisdiction as soon as possible after the individual first relies on this section.

2.3 Individuals acting for investment fund managers

The investment fund manager registration requirement does not apply to an individual acting on behalf of a registered investment fund manager.

Part 3 Registration requirements – individuals

Division 1 General proficiency requirements

3.1 Definitions

In this Part

"Branch Manager Proficiency Exam" means the examination prepared and administered by the RESP Dealers Association of Canada and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination; (*Examen de perfectionnement à l'intention des directeurs de succursale)*

"Canadian Investment Funds Exam" means the examination prepared and administered by the Investment Funds Institute of Canada and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination; (*Examen sur les fonds d'investissement canadiens*)

"Canadian Investment Manager designation" means the designation earned through the Canadian investment manager program prepared and administered by CSI Global Education Inc. and so named on the day this Instrument comes into force, and every program that preceded that program, or succeeded that program, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned program;(*titre de gestionnaire de placements canadien*)

"Canadian Securities Course Exam" means the examination prepared and administered by CSI Global Education Inc. and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination;(*Examen du cours sur le commerce des valeurs mobilières au Canada*)

"CFA Charter" means the charter earned through the Chartered Financial Analyst program prepared and administered by the CFA Institute and so named on the day this Instrument comes into force, and every program that preceded that program, or succeeded that program, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned program;(*titre de CFA*)

"Exempt Market Products Exam" means the examination prepared and administered by the IFSE Institute and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination; (*Examen sur les produits du marché dispense*)

"Investment Funds in Canada Course Exam" means the examination prepared and administered by CSI Global Education Inc. and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination; *(Examen du cours sur les fonds d'investissement au Canada*)

"Mutual Fund Dealers Compliance Exam" means the examination prepared and administered by the IFSE Institute and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination; (*Examen sur la conformité des courtiers en épargne collective*)

"New Entrants Course Exam" means the examination prepared and administered by CSI Global Education Inc. and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination; (*Examen du cours à l'intention des candidats étrangers admissible*)

"PDO Exam" means

(a) the Officers', Partners' and Directors' Exam prepared and administered by the Investment Funds Institute of Canada and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination, or

(b) the Partners, Directors and Senior Officers Course Exam prepared and administered by CSI Global Education Inc. and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination; (*Examen AAD*)

"Sales Representative Proficiency Exam" means the examination prepared and administered by the RESP Dealers Association of Canada and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination; (*Examen de perfectionnement à l'intention des représentants des ventes*)

"Series 7 Exam" means the examination prepared and administered by the Financial Industry Regulatory Authority in the United States of America and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination.(*Series 7 Exam*)

3.2 U.S. equivalency

In this Part, an individual is not required to have passed the Canadian Securities Course Exam if the individual has passed the Series 7 Exam and the New Entrants Course Exam.

3.3 Time limits on examination requirements

(1) For the purposes of this Part, an individual is deemed to have not passed an examination, and is deemed to have not successfully completed a program, unless the individual passed the examination or successfully completed the program within 36 months before the date the individual applied for registration.

(2) Subsection (1) does not apply if the individual passed the examination or successfully completed the program more than 36 months before the date the individual applied for registration and one or both of the following apply:

(a) for any 12 months during the 36-month period before the date the individual applied for registration in a category, the individual was registered in the same category in a jurisdiction of Canada;

(b) the individual gained 12 months of relevant securities industry experience during the 36-month period before the date the individual applied for registration.

(3) In Québec, the examinations provided for in subsections (4) and (6) of section 45 of Policy Q-9 *Dealers, Advisers and Representatives*, as it read on September 27, 2009, are deemed to be relevant examinations for purposes of subsection (2).

Division 2 Education and experience requirements

3.4 Proficiency – initial and ongoing

(1) An individual must not perform an activity that requires registration unless the individual has the education, training and experience that a reasonable person would consider necessary to perform the activity competently.

(2) A chief compliance officer must not perform an activity set out in section 5.2 [*responsibilities of the chief compliance officer*] unless the individual has the education, training and experience that a reasonable person would consider necessary to perform the activity competently.

3.5 Mutual fund dealer – dealing representative

A dealing representative of a mutual fund dealer must not act as a dealer on behalf of the mutual fund dealer unless one or both of the following apply:

(a) the representative has passed the Canadian Investment Funds Exam, the Canadian Securities Course Exam or the Investment Funds in Canada Course Exam;

(b) the representative has met the requirements of section 3.11 [*portfolio manager – advising representative*].

3.6 Mutual fund dealer – chief compliance officer

A mutual fund dealer must not designate an individual as its chief compliance officer under subsection 11.3(1) [*designating a chief compliance officer*] unless any of the following apply:

(a) the individual has passed

(i) the Canadian Investment Funds Exam, the Canadian Securities Course Exam or the Investment Funds in Canada Course Exam, and

(ii) the PDO Exam or the Mutual Fund Dealers Compliance Exam;

(b) the individual has met the requirements of section 3.13 [*portfolio manager – chief compliance officer*]

3.7 Scholarship plan dealer – dealing representative

A dealing representative of a scholarship plan dealer must not act as a dealer on behalf of the scholarship plan dealer unless the representative has passed the Sales Representative Proficiency Exam.

3.8 Scholarship plan dealer – chief compliance officer

A scholarship plan dealer must not designate an individual as its chief compliance officer under subsection 11.3(1) [*designating a chief compliance officer*] unless the individual has passed all of the following:

(a) the Sales Representative Proficiency Exam;

(b) the Branch Manager Proficiency Exam;

(c) the PDO Exam.

3.9 Exempt market dealer – dealing representative

A dealing representative of an exempt market dealer must not act as a dealer on behalf of the exempt market dealer unless any of the following apply:

(a) the individual has passed the Canadian Securities Course Exam;

(b) the individual has passed the Exempt Market Products Exam;

(c) the individual satisfies the conditions set out in section 3.11 [*portfolio manager – advising representative*].

3.10 Exempt market dealer – chief compliance officer

An exempt market dealer must not designate an individual as its chief compliance officer under subsection 11.3(1) [*designating a chief compliance officer*] unless any of the following apply:

(a) the individual has passed the PDO Exam and any of the following:

(i) the Canadian Securities Course Exam;

(ii) the Exempt Market Products Exam;

(b) the individual has met the requirements of section 3.13 [*portfolio manager – chief compliance officer*].

3.11 Portfolio manager – advising representative

An advising representative of a portfolio manager must not act as an adviser on behalf of the portfolio manager unless any of the following apply:

(a) the representative has earned a CFA Charter and has 12 months of relevant investment management experience in the 36-month period before applying for registration;

(b) the representative has received the Canadian Investment Manager designation and has 48 months of relevant investment management experience, 12 months of which was in the 36-month period before applying for registration.

3.12 Portfolio manager – associate advising representative

An associate advising representative of a portfolio manager must not act as an adviser on behalf of the portfolio manager unless any of the following apply:

(a) the representative has completed Level 1 of the Chartered Financial Analyst program and has 24 months of relevant investment management experience;

(b) the representative has received the Canadian Investment Manager designation and has 24 months of relevant investment management experience.

3.13 Portfolio manager – chief compliance officer

A portfolio manager must not designate an individual as its chief compliance officer under subsection 11.3(1) [*designating a chief compliance officer*] unless any of the following apply:

(a) the individual has

(i) earned a CFA Charter or a professional designation as a lawyer, Chartered Accountant, Certified General Accountant or Certified Management Accountant in a jurisdiction of Canada, a notary in Québec, or the equivalent in a foreign jurisdiction,

(ii) passed the Canadian Securities Course Exam and the PDO Exam, and

(iii) either

A) gained 36 months of relevant securities experience while working at an investment dealer, a registered adviser or an investment fund manager, or

B) provided professional services in the securities industry for 36 months and worked at a registered dealer, a registered adviser or an investment fund manager for 12 months;

(b) the individual has passed the Canadian Securities Course Exam and the PDO Exam and any of the following apply:

(i) the individual has worked at an investment dealer or a registered adviser for 5 years, including for 36 months in a compliance capacity;

(ii) the individual has worked for 5 years at a Canadian financial institution in a compliance capacity relating to portfolio management and worked at a registered dealer or a registered adviser for 12 months;

(c) the individual has passed the PDO Exam and has met the requirements of section 3.11 [*portfolio manager – advising representative*].

3.14 Investment fund manager – chief compliance officer

An investment fund manager must not designate an individual as its chief compliance officer under subsection 11.3(1) [*designating a chief compliance officer*] unless any of the following apply:

(a) the individual has

(i) earned a CFA Charter or a professional designation as a lawyer, Chartered Accountant, Certified General Accountant or Certified Management Accountant in a jurisdiction of Canada, a notary in Québec, or the equivalent in a foreign jurisdiction,

(ii) passed the Canadian Securities Course Exam and the PDO Exam, and

(iii) either

A) gained 36 months of relevant securities experience while working at a registered dealer, a registered adviser or an investment fund manager, or

B) provided professional services in the securities industry for 36 months and worked in a relevant capacity at an investment fund manager for 12 months;

(b) the individual has

(i) passed the Canadian Investment Funds Exam, the Canadian Securities Course Exam, or the Investment Funds in Canada Course Exam,

(ii) passed the PDO Exam, and

(iii) gained 5 years of relevant securities experience while working at a registered dealer, registered adviser or an investment fund manager, including 36 months in a compliance capacity.

(c) the individual has met the requirements of section 3.13 [*portfolio manager – chief compliance officer*].

Division 3 Membership in a self-regulatory organization

3.15 Who must be approved by an SRO before registration

(1) A dealing representative of an investment dealer must be an "approved person" as defined under the rules of IIROC.

(2) Except in Québec, a dealing representative of a mutual fund dealer must be an "approved person" as defined under the rules of the MFDA.

3.16 Exemptions from certain requirements for SRO-approved persons

(1) The following sections do not apply to a registered individual who is a dealing representative of a member of IIROC:

(a) subsection 13.2(3) [*know your client*];

(b) section 13.3 [*suitability*];

(c) section 13.13 [*disclosure when recommending the use of borrowed money*].

(2) The following sections do not apply to a registered individual who is a dealing representative of a member of the MFDA:

(a) section 13.3 [*suitability*];

(b) section 13.13 [*disclosure when recommending the use of borrowed money*].

(3) In Québec, the requirements listed in subsection (2) do not apply to a registered individual who is a dealing representative of a mutual fund dealer if the registered individual complies with the applicable regulations on mutual fund dealers in Québec.

Part 4 Restrictions on registered individuals

4.1 Restriction on acting for another registered firm

An individual registered as a dealing, advising or associate advising representative of a registered firm must not act as an officer, partner or director of another registered firm that is not an affiliate of the first-mentioned registered firm.

4.2 Associate advising representatives – pre-approval of advice

(1) An associate advising representative of a registered adviser must not advise on securities unless, before giving the advice, the advice has been approved by an individual designated by the registered firm under subsection (2).

(2) A registered adviser must designate, for an associate advising representative, an advising representative to review the advice of the associate advising representative.

(3) No later than the 7th day following the date of a designation under subsection (2), a registered adviser must provide the regulator with the names of the advising representative and the associate advising representative who are the subject of the designation.

Part 5 Ultimate designated person and chief compliance officer

5.1 Responsibilities of the ultimate designated person

The ultimate designated person of a registered firm must do all of the following:

(a) supervise the activities of the firm that are directed towards ensuring compliance with securities legislation by the firm and each individual acting on the firm's behalf;

(b) promote compliance by the firm, and individuals acting on its behalf, with securities legislation.

5.2 Responsibilities of the chief compliance officer

The chief compliance officer of a registered firm must do all of the following:

(a) establish and maintain policies and procedures for assessing compliance by the firm, and individuals acting on its behalf, with securities legislation;

(b) monitor and assess compliance by the firm, and individuals acting on its behalf, with securities legislation;

(c) report to the ultimate designated person of the firm as soon as possible if the chief compliance officer becomes aware of any circumstances indicating that the firm, or any individual acting on its behalf, may be in non-compliance with securities legislation and any of the following apply:

(i) the non-compliance creates, in the opinion of a reasonable person, a risk of harm to a client;

(ii) the non-compliance creates, in the opinion of a reasonable person, a risk of harm to the capital markets;

(iii) the non-compliance is part of a pattern of non-compliance;

(d) submit an annual report to the firm's board of directors, or individuals acting in a similar capacity for the firm, for the purpose of assessing compliance by the firm, and individuals acting on its behalf, with securities legislation.

Part 6 Suspension and revocation of registration – individuals

6.1 If individual ceases to have authority to act for firm

If a registered individual ceases to have authority to act as a registered individual on behalf of his or her sponsoring firm because of the end of, or a change in, the individual's employment, partnership, or agency relationship with the firm, the individual's registration with the firm is suspended until reinstated or revoked under securities legislation.

6.2 If IIROC approval is revoked or suspended

If IIROC revokes or suspends a registered individual's approval in respect of an investment dealer, the individual's registration as a dealing representative of the investment dealer is suspended until reinstated or revoked under securities legislation.

6.3 If MFDA approval is revoked or suspended

Except in Québec, if the MFDA revokes or suspends a registered individual's approval in respect of a mutual fund dealer, the individual's registration as a dealing representative of the mutual fund dealer is suspended until reinstated or revoked under securities legislation.

6.4 If sponsoring firm is suspended

If a registered firm's registration in a category is suspended, the registration of each registered dealing, advising or associate advising representative acting on behalf of the firm in that category is suspended until reinstated or revoked under securities legislation.

6.5 Dealing and advising activities suspended

If an individual's registration in a category is suspended, the individual must not act as a dealer, an underwriter or an adviser, as the case may be, under that category.

6.6 Revocation of a suspended registration – individual

If a registration of an individual has been suspended under this Part and it has not been reinstated, the registration is revoked on the 2nd anniversary of the suspension.

6.7 Exception for individuals involved in a hearing

Despite section 6.6, if a hearing concerning a suspended registrant is commenced under securities legislation or a proceeding concerning the registrant is commenced under the rules of an SRO, the registrant's registration remains suspended.

6.8 Application of Part 6 in Ontario

Other than section 6.5 [*dealing and advising activities suspended*], this Part does not apply in Ontario.

Note: In Ontario, measures governing suspension in section 29 of the *Securities Act* (Ontario) are similar to those in Parts 6 and 10.

Part 7 Categories of registration for firms

7.1 Dealer categories

(1) The following are the categories of registration for a person or company that is required, under securities legislation, to be registered as a dealer:

(a) investment dealer;

(b) mutual fund dealer;

(c) scholarship plan dealer;

(d) exempt market dealer;

(e) restricted dealer.

(2) A person or company registered in the category of

(a) investment dealer may act as a dealer or an underwriter in respect of any security,

(b) mutual fund dealer may act as a dealer in respect of any security of

(i) a mutual fund, or

(ii) except in Québec, an investment fund that is a labour-sponsored investment fund corporation or labour-sponsored venture capital corporation under legislation of a jurisdiction of Canada,

(c) scholarship plan dealer may act as a dealer in respect of a security of a scholarship plan, an educational plan or an educational trust,

(d) exempt market dealer may

(i) act as a dealer by trading a security that is distributed under an exemption from the prospectus requirement, whether or not a prospectus was filed in respect of the distribution,

(ii) act as a dealer by trading a security that, if the trade were a distribution, would be exempt from the prospectus requirement,

(iii) receive an order from a client to sell a security that was acquired by the client in a circumstance described in subparagraph (i) or (ii), and may act or solicit in furtherance of receiving such an order, and

(iv) act as an underwriter in respect of a distribution of securities that is made under an exemption from the prospectus requirement;

(e) restricted dealer may act as a dealer or an underwriter in accordance with the terms, conditions, restrictions or requirements applied to its registration.

(3) Despite paragraph (2)(b), in British Columbia a mutual fund dealer may also act as a dealer in respect of securities of any of the following:

(a) scholarship plans;

(b) educational plans;

(c) educational trusts.

(4) Subsection (1) does not apply in Ontario.

Note: In Ontario, the same categories of registration for firms acting as dealers as in subsection 7.1(1) are set out under subsection 26(2) of the *Securities Act* (Ontario).

7.2 Adviser categories

(1) The following are the categories of registration for a person or company that is required, under securities legislation, to be registered as an adviser:

(a) portfolio manager;

(b) restricted portfolio manager.

(2) A person or company registered in the category of

(a) portfolio manager may act as an adviser in respect of any security, and

(b) restricted portfolio manager may act as an adviser in respect of any security in accordance with the terms, conditions, restrictions or requirements applied to its registration.

(3) Subsection (1) does not apply in Ontario.

Note: In Ontario, the same categories of registration for firms acting as advisers as in subsection 7.2(1) are set out under subsection 26(6) of the Securities Act (Ontario).

7.3 Investment fund manager category

The category of registration for a person or company that is required, under securities legislation, to be registered as an investment fund manager is “investment fund manager”.

Part 8 Exemptions from the requirement to register

Division 1 Exemptions from dealer and underwriter registration

8.1 Interpretation of “trade” in Québec

In this Part, in Québec, "trade" refers to any of the following activities:

(a) the activities described in the definition of "dealer" in section 5 of the *Securities Act* (R.S.Q., c. V-1.1), including the following activities:

(i) the sale or disposition of a security by onerous title, whether the terms of payment are on margin, installment or otherwise, but does not include a transfer or the giving in guarantee of securities in connection with a debt or the purchase of a security, except as provided in paragraph (b);

(ii) participation as a trader in any transaction in a security through the facilities of an exchange or a quotation and trade reporting system;

(iii) the receipt by a registrant of an order to buy or sell a security;

(b) a transfer or the giving in guarantee of securities of an issuer from the holdings of a control person in connection with a debt.

8.2 Definition of “securities” in Alberta, British Columbia, New Brunswick and Saskatchewan

Despite section 1.2, in Alberta, British Columbia, New Brunswick and Saskatchewan, a reference to “securities” in this Division excludes “exchange contracts”.

8.3 Interpretation – exemption from underwriter registration requirement

In this Division, an exemption from the dealer registration requirement is an exemption from the underwriter registration requirement.

8.4 Person or company not in the business of trading in British Columbia, Manitoba and New Brunswick

(1) In British Columbia and New Brunswick, a person or company is exempt from the dealer registration requirement if the person or company

(a) is not engaged in the business of trading in securities or exchange contracts as a principal or agent, and

(b) does not hold himself, herself or itself out as engaging in the business of trading in securities or exchange contracts as a principal or agent.

(2) In Manitoba, a person or company is exempt from the dealer registration requirement if the person or company

(a) is not engaged in the business of trading in securities as a principal or agent, and

(b) does not hold himself, herself or itself out as engaging in the business of trading in securities as a principal or agent.

8.5 Trades through or to a registered dealer

The dealer registration requirement does not apply to a person or company in respect of a trade by the person or company if one of the following applies:

(a) the trade is made solely through an agent who is a registered dealer, if the dealer is registered in a category that permits the trade;

(b) the trade is made to a registered dealer who is purchasing as principal, if the dealer is registered in a category that permits the trade.

8.6 Adviser – non-prospectus qualified investment fund

(1) The dealer registration requirement does not apply to a registered adviser, or an adviser that is exempt from registration under section 8.26 [*international adviser*], in respect of a trade in a security of a non-prospectus qualified investment fund if both of the following apply:

(a) the adviser acts as the fund's adviser and investment fund manager;

(b) the trade is to a managed account of a client of the adviser.

(2) The exemption in subsection (1) is not available if the managed account or non-prospectus qualified investment fund was created or is used primarily for the purpose of qualifying for the exemption.

(3) An adviser that relies on subsection (1) must provide written notice to the regulator that it is relying on the exemption within 7 days of its first use of the exemption.

8.7 Investment fund reinvestment

(1) Subject to subsections (2), (3), (4) and (5), the dealer registration requirement does not apply to an investment fund, or the investment fund manager of the fund, in respect of a trade in a security with a security holder of the investment fund if the trade is permitted by a plan of the investment fund and is in a security of the investment fund's own issue and if any of the following apply:

(a) a dividend or distribution out of earnings, surplus, capital or other sources payable in respect of the investment fund's securities is applied to the purchase of the security that is of the same class or series as the securities to which the dividends or distributions are attributable;

(b) the security holder makes an optional cash payment to purchase the security of the investment fund and both of the following apply:

(i) the security is of the same class or series of securities described in paragraph (a) that trade on a marketplace;

(ii) the aggregate number of securities issued under the optional cash payment does not exceed, in the financial year of the investment fund during which the trade takes place, 2 per cent of the issued and outstanding securities of the class to which the plan relates as at the beginning of the financial year.

(2) The exemption in subsection (1) is not available unless the plan that permits the trade is available to every security holder in Canada to which the dividend or distribution is available.

(3) The exemption in subsection (1) is not available if a sales charge is payable on a trade described in the subsection.

(4) At the time of the trade, if the investment fund is a reporting issuer and in continuous distribution, the investment fund must have set out in the prospectus under which the distribution is made

(a) details of any deferred or contingent sales charge or redemption fee that is payable at the time of the redemption of the security, and

(b) any right that the security holder has to elect to receive cash instead of securities on the payment of a dividend or making of a distribution by the investment fund and instructions on how the right can be exercised.

(5) At the time of the trade, if the investment fund is a reporting issuer and is not in continuous distribution, the investment fund must provide the information required by subsection (4) in its prospectus, annual information form or a material change report.

8.8 Additional investment in investment funds

The dealer registration requirement does not apply to an investment fund, or the investment fund manager of the fund, in respect of a trade in a security of the investment fund's own issue with a security holder of the investment fund if all of the following apply:

(a) the security holder initially acquired securities of the investment fund as principal for an acquisition cost of not less than $150,000 paid in cash at the time of the acquisition;

(b) the trade is in respect of a security of the same class or series as the securities initially acquired, as described in paragraph (a);

(c) the security holder, as at the date of the trade, holds securities of the investment fund and one or both of the following apply:

(i) the acquisition cost of the securities being held was not less than $150,000;

(ii) the net asset value of the securities being held is not less than $150,000.

8.9 Additional investment in investment funds if initial purchase before September 14, 2005

The dealer registration requirement does not apply in respect of a trade by an investment fund in a security of its own issue to a purchaser that initially acquired a security of the same class as principal before September 14, 2005 if all of the following apply:

(a) the security was initially acquired under any of the following provisions:

(i) in Alberta, sections 86(e) and 131(1)(d) of the *Securities Act* (Alberta) as they existed prior to their repeal by sections 9(a) and 13 of the *Securities Amendment Act* (Alberta), 2003 SA c.32 and sections 66.2 and 122.2 of the *Alberta Securities Commission Rules* (General);

(ii) in British Columbia, sections 45(2) (5) and (22), and 74(2) (4) and (19) of the *Securities Act* (British Columbia);

(iii) in Manitoba, sections 19(3) and 58(1)(a) of the *Securities Act* (Manitoba) and section 90 of the *Securities Regulation* MR 491/88R;

(iv) in New Brunswick, section 2.8 of Local Rule 45-501 *Prospectus and Registration Exemptions*;

(v) in Newfoundland and Labrador, sections 36(1)(e) and 73(1)(d) of the *Securities Act* (Newfoundland and Labrador);

(vi) in Nova Scotia, sections 41(1)(e) and 77(1)(d) of the *Securities Act* (Nova Scotia);

(vii) in Northwest Territories, section 3(c) and (z) of Blanket Order No. 1;

(viii) in Nunavut, section 3(c) and (z) of Blanket Order No. 1;

(ix) in Ontario, sections 35(1)5 and 72(1)(d) of the *Securities Act* (Ontario) and section 2.12 of Ontario Securities Commission Rule 45-501 *Exempt Distributions* that came into force on January 12, 2004;

(x) in Prince Edward Island, section 2(3)(d) of the former *Securities Act* (Prince Edward Island) and Prince Edward Island Local Rule 45-512 *Exempt Distributions - Exemption for Purchase of Mutual Fund Securities*;

(xi) in Québec, former sections 51 and 155.1(2) of the *Securities Act* (Québec);

(xii) in Saskatchewan, sections 39(1)(e) and 81(1)(d) of *The Securities Act, 1988* (Saskatchewan);

(b) the trade is for a security of the same class or series as the initial trade;

(c) the security holder, as at the date of the trade, holds securities of the investment fund that have one or both of the following characteristics:

(i) an acquisition cost of not less than the minimum amount prescribed by securities legislation referred to in paragraph (a) under which the initial trade was conducted;

(ii) a net asset value of not less than the minimum amount prescribed by securities legislation referred to in paragraph (a) under which the initial trade was conducted.

8.10 Private investment club

The dealer registration requirement does not apply in respect of a trade in a security of an investment fund if all of the following apply:

(a) the fund has no more than 50 beneficial security holders;

(b) the fund does not seek and has never sought to borrow money from the public;

(c) the fund does not distribute and has never distributed its securities to the public;

(d) the fund does not pay or give any remuneration for investment management or administration advice in respect of trades in securities, except normal brokerage fees;

(e) the fund, for the purpose of financing its operations, requires security holders to make contributions in proportion to the value of the securities held by them.

8.11 Private investment fund – loan and trust pools

(1) The dealer registration requirement does not apply in respect of a trade in a security of an investment fund if all of the following apply:

(a) the fund is administered by a trust company or trust corporation that is registered or authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction of Canada;

(b) the fund has no promoter or investment fund manager other than the trust company or trust corporation referred to in paragraph (a);

(c) the fund commingles the money of different estates and trusts for the purpose of facilitating investment.

(2) Despite subsection (1), a trust company or trust corporation registered under the laws of Prince Edward Island that is not registered under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in another jurisdiction of Canada is not a trust company or trust corporation for the purpose of paragraph (1)(a).

8.12 Mortgages

(1) In this section, "syndicated mortgage" means a mortgage in which two or more persons or companies participate, directly or indirectly, as lenders in the debt obligation that is secured by the mortgage.

(2) Subject to subsection (3), the dealer registration requirement does not apply in respect of a trade in a mortgage on real property in a jurisdiction of Canada by a person or company who is registered or licensed, or exempted from registration or licensing, under mortgage brokerage or mortgage dealer legislation of that jurisdiction.

(3) In Alberta, British Columbia, Manitoba, Québec and Saskatchewan, subsection (2) does not apply in respect of a trade in a syndicated mortgage.

(4) This section does not apply in Ontario.

Note: In Ontario a similar exemption from the dealer registration requirement is provided under subsection 35(4) of the Securities Act (Ontario).

8.13 Personal property security legislation

(1) The dealer registration requirement does not apply in respect of a trade to a person or company, other than an individual in a security evidencing indebtedness secured by or under a security agreement, secured in accordance with personal property security legislation of a jurisdiction of Canada that provides for the granting of security in personal property.

(2) This section does not apply in Ontario.

Note: In Ontario a similar exemption from the dealer registration requirement is provided under subsection 35(2) of the Securities Act (Ontario).

8.14 Variable insurance contract

(1) In this section

> "contract", "group insurance", "insurance company", "life insurance" and "policy" have the respective meanings assigned to them in the legislation referenced opposite the name of the local jurisdiction in Appendix A of NI 45-106;
>
> "variable insurance contract" means a contract of life insurance under which the interest of the purchaser is valued for purposes of conversion or surrender by reference to the value of a proportionate interest in a specified portfolio of assets.

(2) The dealer registration requirement does not apply in respect of a trade in a variable insurance contract by an insurance company if the variable insurance contract is

(a) a contract of group insurance,

(b) a whole life insurance contract providing for the payment at maturity of an amount not less than 75% of the premium paid up to age 75 years for a benefit payable at maturity,

(c) an arrangement for the investment of policy dividends and policy proceeds in a separate and distinct fund to which contributions are made only from policy dividends and policy proceeds, or

(d) a variable life annuity.

8.15 Schedule III banks and cooperative associations – evidence of deposit

(1) The dealer registration requirement does not apply in respect of a trade in an evidence of deposit issued by a Schedule III bank or an association governed by the *Cooperative Credit Associations Act* (Canada).

(2) This section does not apply in Ontario.

Note: In Ontario, subsection 8.15(1) is not required because the security described in the exemption is excluded from the definition of "security" in subsection 1(1) of the *Securities Act* (Ontario).

8.16 Plan administrator

(1) In this section

"consultant" has the same meaning as in section 2.22 of NI 45-106; (*consultant*)

"control person" has the same meaning as in section 1.1 of NI 45-106;(*personne participant au contrôle*)

"executive officer" has the same meaning as in section 1.1 of NI 45-106; (*membre de la haute direction*)

"permitted assign" has the same meaning as in section 2.22 of NI 45-106; (*cessionnaire admissible*)

"plan" means a plan or program established or maintained by an issuer providing for the acquisition of securities of the issuer by employees, executive officers, directors or consultants of the issuer or of a related entity of the issuer;(*plan*)

"plan administrator" means a trustee, custodian, or administrator, acting on behalf of, or for the benefit of, employees, executive officers, directors or consultants of an issuer or of a related entity of an issuer; (*administrateur de plan*)

"related entity" has the same meaning as in section 2.22 of NI 45-106.(*entitée apparentée*)

(2) The dealer registration requirement does not apply in respect of a trade made pursuant to a plan of the issuer in a security of an issuer, or an option to acquire a security of the issuer, made by the issuer, a control person of the issuer, a related entity of the issuer, or a plan administrator of the issuer with any of the following:

(a) the issuer;

(b) a current or former employee, executive officer, director or consultant of the issuer or a related entity of the issuer;

(c) a permitted assign of a person or company referred to in paragraph (b).

(3) The dealer registration requirement does not apply in respect of a trade in a security of an issuer, or an option to acquire a security of the issuer, made by a plan administrator of the issuer if

(a) the trade is pursuant to a plan of the issuer, and

(b) the conditions in section 2.14 of National Instrument 45-102 *Resale of Securities* are satisfied.

8.17 Reinvestment plan

(1) Subject to subsections (3), (4) and (5), the dealer registration requirement does not apply in respect of the following trades by an issuer, or by a trustee, custodian or administrator acting for or on behalf of the issuer, to a security holder of the issuer if the trades are permitted by a plan of the issuer:

(a) a trade in a security of the issuer's own issue if a dividend or distribution out of earnings, surplus, capital or other sources payable in respect of the issuer's securities is applied to the purchase of the security;

(b) subject to subsection (2), a trade in a security of the issuer's own issue if the security holder makes an optional cash payment to purchase the security of the issuer that trades on a marketplace.

(2) The aggregate number of securities issued under the optional cash payment referred to in subsection (1)(b) must not exceed, in any financial year of the issuer during which the trade takes place, 2% of the issued and outstanding securities of the class to which the plan relates as at the beginning of the financial year.

(3) A plan that permits the trades described in subsection (1) must be available to every security holder in Canada to which the dividend or distribution out of earnings, surplus, capital or other sources is available.

(4) This section is not available in respect of a trade in a security of an investment fund.

(5) Subject to section 8.3.1 [*transition – reinvestment plan*] of NI 45-106, if the security traded under a plan described in subsection (1) is of a different class or series than the class or series of the security to which the dividend or distribution is attributable, the issuer or the trustee, custodian or administrator must have provided to each participant that is eligible to receive a security under the plan either a description of the material attributes and characteristics of the security traded under the plan or notice of a source from which the participant can obtain the information without charge.

8.18 International dealer

(1) In this section, "foreign security" means

(a) a security issued by an issuer incorporated, formed or created under the laws of a foreign jurisdiction, or

(b) a security issued by a government of a foreign jurisdiction.

(2) Subject to subsections (3) and (4), the dealer registration requirement does not apply in respect of the following:

(a) an activity, other than a sale of a security, that is reasonably necessary to facilitate a distribution of securities that are offered primarily in a foreign jurisdiction;

(b) a trade in a debt security with a permitted client during the security's distribution, if the debt security is offered primarily in a foreign jurisdiction and a prospectus has not been filed with a Canadian securities regulatory authority for the distribution;

(c) a trade in a debt security that is a foreign security with a permitted client, other than during the security's distribution;

(d) a trade in a foreign security with a permitted client, unless the trade is made during the security's distribution under a prospectus that has been filed with a Canadian securities regulatory authority;

(e) a trade in a foreign security with an investment dealer;

(f) a trade in any security with an investment dealer that is acting as principal.

(3) The exemptions under subsection (2) are not available to a person or company unless all of the following apply:

(a) the head office or principal place of business of the person or company is in a foreign jurisdiction;

(b) the person or company is registered under the securities legislation of the foreign jurisdiction in which its head office or principal place of business is located in a category of registration that permits it to carry on the activities in that jurisdiction that registration as a dealer would permit it to carry on in the local jurisdiction;

(c) the person or company engages in the business of a dealer in the foreign jurisdiction in which its head office or principal place of business is located;

(d) the person or company is acting as principal or as agent for the issuer of the securities, for a permitted client, or for a person or company that is not a resident of Canada;

(e) the person or company has submitted to the securities regulatory authority a completed Form 31-103F2 *Submission to Jurisdiction and Appointment of Agent for Service*.

(4) The exemptions under subsection (2) are not available to a person or company in respect of a trade with a permitted client unless one of the following applies:

(a) the permitted client is a person or company registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer;

(b) the person or company has notified the permitted client of all of the following:

(i) the person or company is not registered in Canada;

(ii) the person or company's jurisdiction of residence;

(iii) the name and address of the agent for service of process of the person or company in the local jurisdiction;

(iv) there may be difficulty enforcing legal rights against the person or company because it is resident outside Canada and all or substantially all of its assets may be situated outside of Canada.

(5) A person or company relying on subsection (2) must notify the regulator 12 months after it first submits a Form 31-103F2 under paragraph (3)(e), and each year thereafter, if it continues to rely on subsection (2).

(6) In Ontario, subsection (5) does not apply to a person or company that complies with the filing and fee payment requirements applicable to an unregistered exempt international firm under Ontario Securities Commission Rule 13-502 *Fees*.

8.19 Self-directed registered education savings plan

(1) In this section

"self-directed RESP" means an educational savings plan registered under the *Income Tax Act* (Canada)

(a) that is structured so that contributions by a subscriber to the plan are deposited directly into an account in the name of the subscriber, and

(b) under which the subscriber maintains control and direction over the plan that enables the subscriber to direct how the assets of the plan are to be held, invested or reinvested subject to compliance with the *Income Tax Act* (Canada).

(2) The dealer registration requirement does not apply in respect of a trade in a self-directed RESP to a subscriber if both of the following apply:

(a) the trade is made by any of the following:

(i) a dealing representative of a mutual fund dealer who is acting on behalf of the mutual fund dealer;

(ii) a Canadian financial institution;

(iii) in Ontario, a financial intermediary;

(b) the self-directed RESP restricts its investments in securities to securities in which the person or company who trades the self-directed RESP is permitted to trade.

8.20 Exchange contract – Alberta, British Columbia, New Brunswick and Saskatchewan

(1) In Alberta, British Columbia and New Brunswick, the dealer registration requirement does not apply in respect of the following trades in exchange contracts:

(a) a trade by a person or company made

(i) solely through an agent who is a registered dealer, if the dealer is registered in a category that permits the trade, or

(ii) to a registered dealer who is purchasing as principal, if the dealer is registered in a category that permits the trade;

(b) subject to subsection (2), a trade resulting from an unsolicited order placed with an individual who is not a resident of, and does not carry on business in, the local jurisdiction.

(2) An individual referred to in subsection (1)(b) must not do any of the following:

(a) advertise or engage in promotional activity that is directed to persons or companies in the local jurisdiction during the 6 months preceding the trade;

(b) pay any commission or finder's fee to any person or company in the local jurisdiction in connection with the trade.

(3) In Saskatchewan, the dealer registration requirement does not apply in respect of either of the following:

(a) a trade in an exchange contract made solely through an agent who is a registered dealer, if the dealer is registered in a category that permits the trade;

(b) a trade in an exchange contract made to a registered dealer who is purchasing as principal, if the dealer is registered in a category that permits the trade.

8.21 Specified debt

(1) In this section

"approved credit rating" has the same meaning as in National Instrument 81-102 *Mutual Funds*; (*note approuvée*)

"approved credit rating organization" has the same meaning as in National Instrument 81-102 *Mutual Funds*; (*agence de notation agréée*)

"permitted supranational agency" means any of the following:

(a) the African Development Bank, established by the Agreement Establishing the African Development Bank which came into force on September 10, 1964, that Canada became a member of on December 30, 1982;

(b) the Asian Development Bank, established under a resolution adopted by the United Nations Economic and Social Commission for Asia and the Pacific in 1965;

(c) the Caribbean Development Bank, established by the Agreement Establishing the Caribbean Development Bank which came into force on January 26, 1970, as amended, that Canada is a founding member of;

(d) the European Bank for Reconstruction and Development, established by the Agreement Establishing the European Bank for Reconstruction and Development and approved by the *European Bank for Reconstruction and Development Agreement Act* (Canada), that Canada is a founding member of;

(e) the Inter-American Development Bank, established by the Agreement establishing the Inter-American Development Bank which became effective December 30, 1959, as amended from time to time, that Canada is a member of;

(f) the International Bank for Reconstruction and Development, established by the Agreement for an International Bank for Reconstruction and Development approved by the *Bretton Woods and Related Agreements Act* (Canada);

(g) the International Finance Corporation, established by Articles of Agreement approved by the *Bretton Woods and Related Agreements Act* (Canada).(*organisme supranational accepté*)

(2) The dealer registration requirement does not apply in respect of a trade in any of the following:

(a) a debt security issued by or guaranteed by the Government of Canada or the government of a jurisdiction of Canada;

(b) a debt security issued by or guaranteed by a government of a foreign jurisdiction if the debt security has an approved credit rating from an approved credit rating organization;

(c) a debt security issued by or guaranteed by a municipal corporation in Canada;

(d) a debt security secured by or payable out of rates or taxes levied under the law of a jurisdiction of Canada on property in the jurisdiction and collectible by or through the municipality in which the property is situated;

(e) a debt security issued by or guaranteed by a Canadian financial institution or a Schedule III bank, other than debt securities that are subordinate in right of payment to deposits held by the issuer or guarantor of those debt securities;

(f) a debt security issued by the Comité de gestion de la taxe scolaire de l'île de Montréal;

(g) a debt security issued by or guaranteed by a permitted supranational agency if the debt securities are payable in the currency of Canada or the United States of America.

(3) Paragraphs (2)(a), (c) and (d) do not apply in Ontario.

Note: In Ontario, exemptions from the dealer registration requirement similar to those in paragraphs 8.21(a), (c) and (d) are provided under paragraph 2 of subsection 35(1) of the *Securities Act* (Ontario).

8.22 Small security holder selling and purchase arrangements

(1) In this section

"exchange" means

(a) TSX Inc.,

(b) TSX Venture Exchange Inc., or

(c) an exchange that

(i) has a policy that is substantially similar to the policy of the TSX Inc., and

(ii) is designated by the securities regulatory authority for the purpose of this section; (*bourse*)

"policy" means,

(a) in the case of TSX Inc., sections 638 and 639 [*Odd lot selling and purchase arrangements*] of the TSX Company Manual, as amended from time to time,

(b) in the case of the TSX Venture Exchange Inc., Policy 5.7 Small Shareholder Selling and Purchase Arrangements, as amended from time to time, or

(c) in the case of an exchange referred to in paragraph (c) of the definition of "exchange", the rule, policy or other similar instrument of the exchange on small shareholder selling and purchase arrangements. (*politique*)

(2) The dealer registration requirement does not apply in respect of a trade by an issuer or its agent, in securities of the issuer that are listed on an exchange, if all of the following apply:

(a) the trade is an act in furtherance of participation by the holders of the securities in an arrangement that is in accordance with the policy of that exchange;

(b) the issuer and its agent do not provide advice to a security holder about the security holder's participation in the arrangement referred to in paragraph (a), other than a description of the arrangement's operation, procedures for participation in the arrangement, or both;

(c) the trade is made in accordance with the policy of that exchange, without resort to an exemption from, or variation of, the significant subject matter of the policy;

(d) at the time of the trade after giving effect to a purchase under the arrangement, the market value of the maximum number of securities that a security holder is permitted to hold in order to be eligible to participate in the arrangement is not more than $25 000.

(3) For the purposes of subsection (2)(c), an exemption from, or variation of, the maximum number of securities that a security holder is permitted to hold under a policy in order to be eligible to participate in the arrangement provided for in the policy is not an exemption from, or variation of, the significant subject matter of the policy.

Division 2 Exemptions from adviser registration

8.23 Dealer without discretionary authority

The adviser registration requirement does not apply to a registered dealer, or a dealing representative acting on behalf of the dealer, that provides advice to a client if the advice is

(a) in connection with a trade in a security that the dealer and the representative are permitted to make under his, her or its registration,

(b) provided by the representative, and

(c) not in respect of a managed account of the client.

8.24 IIROC members with discretionary authority

The adviser registration requirement does not apply to a registered dealer, or a dealing representative acting on behalf of the dealer, that acts as an adviser in respect of a client's managed account if the registered dealer is a member of IIROC and the advising activities are conducted in accordance with the rules of IIROC.

8.25 Advising generally

(1) For the purposes of subsections (3) and (4), "financial or other interest" includes the following:

(a) ownership, beneficial or otherwise, in the security or in another security issued by the same issuer;

(b) an option in respect of the security or another security issued by the same issuer;

(c) a commission or other compensation received, or expected to be received, from any person or company in connection with the trade in the security;

(d) a financial arrangement regarding the security with any person or company;

(e) a financial arrangement with any underwriter or other person or company who has any interest in the security.

(2) The adviser registration requirement does not apply to a person or company that acts as an adviser if the advice the person or company provides does not purport to be tailored to the needs of the person or company receiving the advice.

(3) If a person or company that is exempt under subsection (2) recommends buying, selling or holding a specified security, a class of securities or the securities of a class of issuers in which any of the following has a financial or other interest, the person or company must disclose the interest concurrently with providing the advice:

(a) the person or company;

(b) any partner, director or officer of the person or company;

(c) any other person or company that would be an insider of the first-mentioned person or company if the first-mentioned person or company were a reporting issuer.

(4) If the financial or other interest of the person or company includes an interest in an option described in paragraph (b) of the definition of "financial or other interest" in subsection (1), the disclosure required by subsection (3) must include a description of the terms of the option.

(5) This section does not apply in Ontario.

Note: In Ontario, measures similar to those in section 7.24 are in section 34 of the *Securities Act* (Ontario).

8.26 International adviser

(1) Despite section 1.2, in Alberta, British Columbia, New Brunswick and Saskatchewan, a reference to "securities" in this section excludes "exchange contracts".

(2) In this section

"aggregate consolidated gross revenue" does not include the gross revenue of an affiliate of the adviser if the affiliate is registered in a jurisdiction of Canada;(*chiffre d'affaires brut consolidé total*)

"foreign security" means

(a) a security issued by an issuer incorporated, formed or created under the laws of a foreign jurisdiction, and

(b) a security issued by a government of a foreign jurisdiction; (*titre étranger*)

"permitted client" has the meaning given to the term in section 1.1 [*definitions*] except that it excludes a person or company registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer. (*client autorisé*)

(3) The adviser registration requirement does not apply to a person or company in respect of its acting as an adviser to a permitted client if the adviser does not advise in Canada on securities of Canadian issuers, unless providing that advice is incidental to its providing advice on a foreign security.

(4) The exemption under subsection (3) is not available unless all of the following apply:

(a) the adviser's head office or principal place of business is in a foreign jurisdiction;

(b) the adviser is registered, or operates under an exemption from registration, under the securities legislation of the foreign jurisdiction in which its head office or principal place of business is located, in a category of registration that permits it to carry on the activities in that jurisdiction that registration as an adviser would permit it to carry on in the local jurisdiction;

(c) the adviser engages in the business of an adviser in the foreign jurisdiction in which its head office or principal place of business is located;

(d) during its most recently completed financial year, not more than 10% of the aggregate consolidated gross revenue of the adviser, its affiliates and its affiliated partnerships was derived from the portfolio management activities of the adviser, its affiliates and its affiliated partnerships in Canada;

(e) before advising a client, the adviser notifies the client of all of the following:

(i) the adviser is not registered in Canada;

(ii) the jurisdiction of residence of the adviser;

(iii) the name and address of the adviser's agent for service of process in the local jurisdiction;

(iv) that there may be difficulty enforcing legal rights against the adviser because it is resident outside Canada and all or substantially all of its assets may be situated outside of Canada;

(f) the adviser has submitted to the securities regulatory authority a completed Form 31-103F2 *Submission to Jurisdiction and Appointment of Agent for Service*.

(5) A person or company relying on subsection (3) must notify the regulator 12 months after it first submits a Form 31-103F2 under paragraph (4)(f), and each year thereafter, if it continues to rely on subsection (3).

(6) In Ontario, subsection (5) does not apply to a person or company that complies with the filing and fee payment requirements applicable to an unregistered exempt international firm under Ontario Securities Commission Rule 13-502 *Fees*.

Division 3 Exemptions from investment fund manager registration

8.27 Private investment club

The investment fund manager registration requirement does not apply to a person or company in respect of its acting as an investment fund manager for an investment fund if all of the following apply:

(a) the fund has no more than 50 beneficial security holders;

(b) the fund does not seek and has never sought to borrow money from the public;

(c) the fund does not distribute and has never distributed its securities to the public;

(d) the fund does not pay or give any remuneration for investment management or administration advice in respect of trades in securities, except normal brokerage fees;

(e) the fund, for the purpose of financing its operations, requires security holders to make contributions in proportion to the value of the securities held by them.

8.28 Capital accumulation plan exemption

(1) In this section, "capital accumulation plan" means a tax assisted investment or savings plan, including a defined contribution registered pension plan, a group registered retirement savings plan, a group registered education savings plan, or a deferred profit-sharing plan, established by a plan sponsor that permits a member to make investment decisions among two or more investment options offered within the plan, and in Quebec and Manitoba, includes a simplified pension plan.

(2) The investment fund manager registration requirement does not apply to a person or company that acts as an investment fund manager for an investment fund if the person or company is only required to be registered as an investment fund manager because the investment fund is an investment option in a capital accumulation plan.

8.29 Private investment fund – loan and trust pools

(1) The investment fund manager registration requirement does not apply to a trust company or trust corporation that administers an investment fund if all of the following apply:

(a) the trust company or trust corporation is registered or authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction of Canada;

(b) the fund has no promoter or investment fund manager other than the trust company or trust corporation;

(c) the fund commingles the money of different estates and trusts for the purpose of facilitating investment.

(2) The exemption in subsection (1) is not available to a trust company or trust corporation registered under the laws of Prince Edward Island unless it is also registered under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in another jurisdiction of Canada.

Division 4 Mobility exemption – firms

8.30 Client mobility exemption – firms

The dealer registration requirement and the adviser registration requirement do not apply to a person or company if all of the following apply:

(a) the person or company is registered as a dealer or adviser in its principal jurisdiction;

(b) the person or company does not act as a dealer, underwriter or adviser in the local jurisdiction other than as it is permitted to in its principal jurisdiction according to its registration;

(c) the person or company does not act as a dealer, underwriter or adviser in the local jurisdiction other than in respect of 10 or fewer eligible clients;

(d) the person or company complies with Parts 13 [*dealing with clients – individuals and firms*] and 14 [*handling client accounts – firms*];

(e) the person or company deals fairly, honestly and in good faith in the course of its dealings with an eligible client.

Part 9 Membership in a self-regulatory organization

9.1 IIROC membership for investment dealers

An investment dealer must not act as a dealer unless the investment dealer is a "Dealer Member", as defined under the rules of IIROC.

9.2 MFDA membership for mutual fund dealers

Except in Québec, a mutual fund dealer must not act as a dealer unless the mutual fund dealer is a "member", as defined under the rules of the MFDA.

9.3 Exemptions from certain requirements for SRO members

(1) An investment dealer that is a member of IIROC is exempt from the following requirements to the extent the provisions apply to the activities of an investment dealer:

(a) section 12.1 [*capital requirements*];

(b) section 12.2 [*notifying the regulator of a subordination agreement*];

(c) section 12.3 [*insurance – dealer*];

(d) section 12.6 [*global bonding or insurance*];

(e) section 12.7 [*notifying the regulator of a change, claim or cancellation*];

(f) section 12.10 [*annual financial statements*];

(g) section 12.11 [*interim financial information*];

(h) section 12.12 [*delivering financial information – dealer*];

(i) subsection 13.2(3) [*know your client*];

(j) section 13.3 [*suitability*];

(k) section 13.12 [*restriction on lending to clients*];

(l) section 13.13 [*disclosure when recommending the use of borrowed money*];

(m) subsection 14.2(2) [*relationship disclosure information*];

(n) section 14.6 [*holding client assets in trust*];

(o) section 14.8 [*securities subject to a safekeeping agreement*];

(p) section 14.9 [*securities not subject to a safekeeping agreement*];

(q) section 14.12 [*content and delivery of trade confirmation*].

(2) Despite subsection (1), if a registered firm is a member of IIROC and is registered as an investment fund manager, the firm is not exempt from the following requirements:

(a) section 12.1 [*capital requirements*];

(b) section 12.2 [*notifying the regulator of a subordination agreement*];

(c) section 12.7 [*notifying the regulator of a change, claim or cancellation*];

(d) section 12.10 [*annual financial statements*];

(e) section 12.11 [*interim financial information*].

(3) A registered firm that is a member of the MFDA is exempt from each requirement listed in subsection (1) that applies to a mutual fund dealer other than the following:

(a) subsection 13.2(3) [*know your client*];

(b) section 13.12 [*restriction on lending to clients*].

(4) Despite subsection (3), if a registered firm is a member of the MFDA and is registered as an investment fund manager, the firm is not exempt from the following requirements:

(a) section 12.1 [*capital requirements*];

(b) section 12.2 [*notifying the regulator of a subordination agreement*];

(c) section 12.7 [*notifying the regulator of a change, claim or cancellation*];

(d) section 12.10 [*annual financial statements*];

(e) section 12.11 [*interim financial information*].

(5) Subsection (3) does not apply in Québec.

(6) In Québec, the requirements listed in subsection (1), other than subsection 13.2(3) [*know your client*] and section 13.12 [*restriction on lending to clients*] do not apply to a mutual fund dealer if the registrant complies with the applicable regulations on mutual fund dealer in Québec.

Part 10 Suspension and revocation of registration – firms

Division 1 When a firm's registration is suspended

10.1 Failure to pay fees

(1) In this section, "annual fees" means

(a) in Alberta, the fees required under section 2.1 of the Schedule - Fees in Alta. Reg. 115/95 – Securities Regulation,

(b) in British Columbia, the annual fees required under section 22 of the Securities Regulation, B.C. Reg. 196/97,

(c) in Manitoba, the fees required under paragraph 1.(2)(a) of the *Manitoba Fee Regulation*, M.R 491\88R,

(d) in New Brunswick, the fees required under section 2.2 (c) of Local Rule 11-501 *Fees*,

(e) in Newfoundland and Labrador, the fees required under section 143 of the *Securities Act*,

(f) in Nova Scotia, the fees required under Part XIV of the Regulations,

(g) in Northwest Territories, the fees required under sections 1(c) and 1(e) of the Securities Fee regulations, R-066-2008;

(h) in Nunavut, the fees required under section 1(a) of the Schedule to R-003-2003 to the Securities Fee regulation, R.R.N.W.T. 1990, c.20,

(i) in Prince Edward Island, the fees required under section 175 of the *Securities Act* R.S.P.E.I., Cap. S-3.1,

(j) in Québec, the fees required under section 271.5 of the Québec Securities Regulation,

(k) in Saskatchewan, the annual registration fees required to be paid by a registrant under section 176 of The Securities Regulations (Saskatchewan), and

(l) in Yukon, the fees required under O.I.C. 2009\66, pursuant to section 168 of the Securities Act.

(2) If a registered firm has not paid the annual fees by the 30th day after the date the annual fees were due, the registration of the firm is suspended until reinstated or revoked under securities legislation.

10.2 If IIROC membership is revoked or suspended

If IIROC revokes or suspends a registered firm's membership, the firm's registration in the category of investment dealer is suspended until reinstated or revoked under securities legislation.

10.3 If MFDA membership is revoked or suspended

Except in Québec, if the MFDA revokes or suspends a registered firm's membership, the firm's registration in the category of mutual fund dealer is suspended until reinstated or revoked under securities legislation.

10.4 Activities not permitted while a firm's registration is suspended

If a registered firm's registration in a category is suspended, the firm must not act as a dealer, an underwriter, an adviser, or an investment fund manager, as the case may be, under that category.

Division 2 Revoking a firm's registration

10.5 Revocation of a suspended registration – firm

If a registration has been suspended under this Part and it has not been reinstated, the registration is revoked on the 2nd anniversary of the suspension.

10.6 Exception for firms involved in a hearing

Despite section 10.5, if a hearing concerning a suspended registrant is commenced under securities legislation or under the rules of an SRO, the registrant's registration remains suspended.

10.7 Application of Part 10 in Ontario

Other than section 10.4 [*activities not permitted while a firm's registration is suspended*], this Part does not apply in Ontario.

Note: In Ontario, measures governing suspension in section 29 of the *Securities Act* (Ontario) are similar to those in Parts 6 and 10.

Part 11 Internal controls and systems

Division 1 Compliance

11.1 Compliance system

A registered firm must establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to

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

(b) manage the risks associated with its business in accordance with prudent business practices.

11.2 Designating an ultimate designated person

(1) A registered firm must designate an individual who is registered under securities legislation in the category of ultimate designated person to perform the functions described in section 5.1 [*responsibilities of the ultimate designated person*].

(2) A registered firm must not designate an individual to act as the firm's ultimate designated person unless the individual is one of the following:

(a) the chief executive officer or sole proprietor of the registered firm;

(b) an officer in charge of a division of the registered firm, if the activity that requires the firm to register occurs only within the division;

(c) an individual acting in a capacity similar to that of an officer described in paragraph (a) or (b).

(3) If an individual who is registered as a registered firm's ultimate designated person ceases to meet any of the conditions listed in subsection (2), the registered firm must designate another individual to act as its ultimate designated person.

11.3 Designating a chief compliance officer

(1) A registered firm must designate an individual who is registered under securities legislation in the category of chief compliance officer to perform the functions described in section 5.2 [*responsibilities of the chief compliance officer*].

(2) A registered firm must not designate an individual to act as the firm's chief compliance officer unless the individual has satisfied the applicable conditions in Part 3 [*registration requirements – individuals*] and the individual is one of the following:

(a) an officer or partner of the registered firm;

(b) the sole proprietor of the registered firm.

(3) If an individual who is registered as a registered firm's chief compliance officer ceases to meet any of the conditions listed in subsection (2), the registered firm must designate another individual to act as its chief compliance officer.

11.4 Providing access to board

A registered firm must permit its ultimate designated person and its chief compliance officer to directly access the firm's board of directors, or individuals acting in a similar capacity for the firm, at such times as the ultimate designated person or the chief compliance officer may consider necessary or advisable in view of his or her responsibilities.

Division 2 Books and records

11.5 General requirements for records

(1) A registered firm must maintain records to

(a) accurately record its business activities, financial affairs, and client transactions, and

(b) demonstrate the extent of the firm's compliance with applicable requirements of securities legislation.

(2) The records required under subsection (1) include, but are not limited to, records that do the following:

(a) permit timely creation and audit of financial statements and other financial information required to be filed or delivered to the securities regulatory authority;

(b) permit determination of the registered firm's capital position;

(c) demonstrate compliance with the registered firm's capital and insurance requirements;

(d) demonstrate compliance with internal control procedures;

(e) demonstrate compliance with the firm's policies and procedures;

(f) permit the identification and segregation of client cash, securities, and other property;

(g) identify all transactions conducted on behalf of the registered firm and each of its clients, including the parties to the transaction and the terms of the purchase or sale;

(h) provide an audit trail for

(i) client instructions and orders, and

(ii) each trade transmitted or executed for a client or by the registered firm on its own behalf;

(i) permit the generation of account activity reports for clients;

(j) provide securities pricing as may be required by securities legislation;

(k) document the opening of client accounts, including any agreements with clients;

(l) demonstrate compliance with sections 13.2 [*know your client*] and 13.3 [*suitability*];

(m) demonstrate compliance with complaint-handling requirements;

(n) document correspondence with clients;

(o) document compliance and supervision actions taken by the firm.

11.6 Form, accessibility and retention of records

(1) A registered firm must keep a record that it is required to keep under securities legislation

(a) for 7 years from the date the record is created,

(b) in a safe location and in a durable form, and

(c) in a manner that permits it to be provided to the regulator or the securities regulatory authority in a reasonable period of time.

(2) A record required to be provided to the regulator or the securities regulatory authority must be provided in a format that is capable of being read by the regulator or the securities regulatory authority.

(3) Paragraph (1)(c) does not apply in Ontario.

Note: In Ontario, how quickly a registered firm is require to provide information to the regulator is addressed in subsection 19(3) of the *Securities Act* (Ontario).

Division 3 Certain business transactions

11.7 Tied settling of securities transactions

A registered firm must not require a person or company to settle that person's or company's transaction with the registered firm through that person's or company's account at a Canadian financial institution as a condition, or on terms

that would appear to a reasonable person to be a condition, of supplying a product or service, unless this method of settlement would be, to a reasonable person, necessary to provide the specific product or service that the person or company has requested.

11.8 Tied selling

A dealer, adviser or investment fund manager must not require another person or company

(a) to buy, sell or hold a security as a condition, or on terms that would appear to a reasonable person to be a condition, of supplying or continuing to supply a product or service, or

(b) to buy, sell or use a product or service as a condition, or on terms that would appear to a reasonable person to be a condition, of buying or selling a security.

11.9 Registrant acquiring a registered firm's securities or assets

(1) A registrant must give the regulator written notice in accordance with subsection (2) if it proposes to acquire any of the following:

(a) beneficial ownership of, or direct or indirect control or direction over, a security of a registered firm;

(b) beneficial ownership of, or direct or indirect control or direction over, a security of a person or company of which a registered firm is a subsidiary;

(c) all or a substantial part of the assets of a registered firm.

(2) The notice required under subsection (1) must be delivered to the regulator at least 30 days before the proposed acquisition and must include all relevant facts regarding the acquisition sufficient to enable the regulator to determine if the acquisition is

(a) likely to give rise to a conflict of interest,

(b) likely to hinder the registered firm in complying with securities legislation,

(c) inconsistent with an adequate level of investor protection, or

(d) otherwise prejudicial to the public interest.

(3) Subsection (1) does not apply to the following:

(a) a proposed acquisition in connection with an amalgamation, merger, arrangement, reorganization or treasury issue if the beneficial ownership of, or direct or indirect control or direction over, the person or company whose security is to be acquired will not change;

(b) a registrant who, alone or in combination with any other person or company, proposes to acquire securities that, together with the securities already beneficially owned, or over which direct or indirect control or direction is already exercised, do not exceed more than 10% of any class or series of securities that are listed and posted for trading on an exchange.

(4) Except in Ontario and British Columbia, if, within 30 days of the regulator's receipt of a notice under subsection (1), the regulator notifies the registrant making the acquisition that the regulator objects to the acquisition, the acquisition must not occur until the regulator approves it.

(5) In Ontario, if, within 30 days of the regulator's receipt of a notice under subsection (1)(a) or (c), the regulator notifies the registrant making the acquisition that the regulator objects to the acquisition, the acquisition must not occur until the regulator approves it.

(6) Following receipt of a notice of objection under subsection (4) or (5), the person or company who submitted the notice to the regulator may request an opportunity to be heard on the matter.

11.10 Registered firm whose securities are acquired

(1) A registered firm must give the regulator written notice in accordance with subsection (2) if it knows or has reason to believe that any person or company, alone or in combination with any other person or company, is about to acquire, or has acquired, beneficial ownership of, or direct or indirect control or direction over, 10% or more of any class or series of voting securities of any of the following:

(a) the registered firm;

(b) a person or company of which the registered firm is a subsidiary.

(2) The notice required under subsection (1) must,

(a) be delivered to the regulator as soon as possible,

(b) include the name of each person or company involved in the acquisition, and

(c) after the registered firm has applied reasonable efforts to gather all relevant facts, include facts regarding the acquisition sufficient to enable the regulator to determine if the acquisition is

(i) likely to give rise to a conflict of interest,

(ii) likely to hinder the registered firm in complying with securities legislation,

(iii) inconsistent with an adequate level of investor protection, or

(iv) otherwise prejudicial to the public interest.

(3) This section does not apply to an amalgamation, merger, arrangement, reorganization or treasury issue in which the beneficial ownership of a registered firm does not change.

(4) This section does not apply if notice of the transaction was provided under section 11.9 [*registrant acquiring a registered firm's securities or assets*].

(5) Except in British Columbia and Ontario, if, within 30 days of the regulator's receipt of a notice under subsection (1), the regulator notifies the person or company making the acquisition that the regulator objects to the acquisition, the acquisition must not occur until the regulator approves it.

(6) In Ontario, if, within 30 days of the regulator's receipt of a notice under subsection (1)(a), the regulator notifies the person or company making the acquisition that the regulator objects to the acquisition, the acquisition must not occur until the regulator approves it.

(7) Following receipt of a notice of objection under subsection (5) or (6), the person or company proposing to make the acquisition may request an opportunity to be heard on the matter.

Part 12 Financial condition

Division 1 Working capital

12.1 Capital requirements

(1) If, at any time, the excess working capital of a registered firm, as calculated using Form 31-103F1 *Calculation of Excess Working Capital*, is less than zero, the registered firm must notify the regulator as soon as possible.

(2) A registered firm must ensure that its excess working capital, as calculated using Form 31-103F1 *Calculation of Excess Working Capital*, is not less than zero for 2 consecutive days.

(3) For the purpose of completing Form 31-103F1 *Calculation of Excess Working Capital*, the minimum capital is

(a) $25,000, for a registered adviser that is not also a registered dealer or a registered investment fund manager,

(b) $50,000, for a registered dealer that is not also a registered investment fund manager, and

(c) $100,000, for a registered investment fund manager.

(4) Paragraph (3)(c) does not apply to a registered investment fund manager that is exempt from the dealer registration requirement under section 8.6 [*adviser – non-prospectus qualified investment fund*] in respect of all investment funds for which it acts as adviser.

12.2 Notifying the regulator of a subordination agreement

If a registered firm has executed a subordination agreement, the effect of which is to exclude an amount from its long-term related party debt as calculated on Form 31-103F1 *Calculation of Excess Working Capital*, the firm must notify the regulator 5 days before it

(a) repays the loan or any part of the loan, or

(b) terminates the agreement.

Division 2 Insurance

12.3 Insurance – dealer

(1) A registered dealer must maintain bonding or insurance

(a) that contains the clauses set out in Appendix A [*bonding and insurance clauses*], and

(b) that provides for a double aggregate limit or a full reinstatement of coverage.

(2) A registered dealer must maintain bonding or insurance in respect of each clause set out in Appendix A and in the highest of the following amounts for each clause:

(a) $50,000 per employee, agent and dealing representative or $200,000, whichever is less;

(b) one per cent of the total client assets that the dealer holds or has access to, as calculated using the dealer's most recent financial records, or $25,000,000, whichever is less;

(c) one per cent of the dealer's total assets, as calculated using the dealer's most recent financial records, or $25,000,000, whichever is less;

(d) the amount determined to be appropriate by a resolution of the dealer's board of directors, or individuals acting in a similar capacity for the firm.

(3) In Québec, this section does not apply to a scholarship plan dealer or a mutual fund dealer registered only in Québec.

12.4 Insurance – adviser

(1) A registered adviser must maintain bonding or insurance

(a) that contains the clauses set out in Appendix A [*bonding and insurance clauses*], and

(b) that provides for a double aggregate limit or a full reinstatement of coverage.

(2) A registered adviser that does not hold or have access to client assets must maintain bonding or insurance in respect of each clause set out in Appendix A and in the amount of $50,000 for each clause.

(3) A registered adviser that holds or has access to client assets must maintain bonding or insurance in respect of each clause set out in Appendix A and in the highest of the following amounts for each clause:

(a) one per cent of assets under management that the adviser holds or has access to, as calculated using the adviser's most recent financial records, or $25,000,000, whichever is less;

(b) one per cent of the adviser's total assets, as calculated using the adviser's most recent financial records, or $25,000,000, whichever is less;

(c) $200,000;

(d) the amount determined to be appropriate by a resolution of the adviser's board of directors or individuals acting in a similar capacity for the firm.

12.5 Insurance – investment fund manager

(1) A registered investment fund manager must maintain bonding or insurance

(a) that contains the clauses set out in Appendix A [*bonding and insurance clauses*], and

(b) that provides for a double aggregate limit or a full reinstatement of coverage.

(2) A registered investment fund manager must maintain bonding or insurance in respect of each clause set out in Appendix A and in the highest of the following amounts for each clause:

(a) one per cent of assets under management, as calculated using the investment fund manager's most recent financial records, or $25,000,000, whichever is less;

(b) one per cent of the investment fund manager's total assets, as calculated using the investment fund manager's most recent financial records, or $25,000,000, whichever is less;

(c) $200,000;

(d) the amount determined to be appropriate by a resolution of the investment fund manager's board of directors or individuals acting in a similar capacity for the firm.

12.6 Global bonding or insurance

A registered firm may not maintain bonding or insurance under this Division that benefits, or names as an insured, another person or company unless the bond provides, without regard to the claims, experience or any other factor referable to that other person or company, the following:

(a) the registered firm has the right to claim directly against the insurer in respect of losses, and any payment or satisfaction of those losses must be made directly to the registered firm;

(b) the individual or aggregate limits under the policy may only be affected by claims made by or on behalf of

(i) the registered firm, or

(ii) a subsidiary of the registered firm whose financial results are consolidated with those of the registered firm.

12.7 Notifying the regulator of a change, claim or cancellation

A registered firm must, as soon as possible, notify the regulator in writing of any change in, claim made under, or cancellation of any insurance policy required under this Division.

Division 3 Audits

12.8 Direction by a regulator to conduct an audit or review

A registered firm must direct its auditor in writing to conduct any audit or review required by the regulator during its registration and must submit a copy of the direction to the regulator

(a) with its application for registration, and

(b) no later than the 7th day after the registered firm changes its auditor.

12.9 Co-operating with the auditor

A registrant must not withhold, destroy or conceal any information or documents or otherwise fail to cooperate with a reasonable request made by an auditor of the registered firm in the course of an audit.

Division 4 Financial reporting

12.10 Annual financial statements

(1) The annual financial statements delivered to the regulator under this Division must include the following:

(a) an income statement, a statement of retained earnings and a cash flow statement, each prepared for the most recently completed financial year and the financial year immediately preceding the most recently completed financial year, if any;

(b) a balance sheet, signed by at least one director of the registered firm, as at the end of the most recently completed financial year and the financial year immediately preceding the most recently completed financial year, if any;

(c) notes to the financial statements.

(2) The annual financial statements delivered to the regulator under this Division must be audited.

(3) The annual financial statements delivered to the regulator under this Division must be prepared in accordance with National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, except that the statements must be prepared on a non-consolidated basis.

12.11 Interim financial information

(1) The interim financial information delivered to the regulator under this Division may be limited to the following:

(a) an income statement for the interim period and for the same period of the immediately preceding financial year, if any;

(b) a balance sheet, signed by at least one director of the registered firm, as at the end of the interim period and for the same period of the immediately preceding financial year, if any.

(2) The interim financial information delivered to the regulator under this Division must be prepared using the same accounting principles that the registered firm uses to prepare its annual financial statements.

12.12 Delivering financial information – dealer

(1) A registered dealer must deliver the following to the regulator no later than the 90th day after the end of its financial year:

(a) its annual financial statements for the financial year;

(b) a completed Form 31-103F1 *Calculation of Excess Working Capital*, showing the calculation of the dealer's excess working capital as at the end of the financial year and as at the end of the immediately preceding financial year, if any.

(2) A registered dealer must deliver the following to the regulator no later than the 30th day after the end of the first, second and third quarter of its financial year:

(a) its interim financial information for the quarter;

(b) a completed Form 31-103F1 *Calculation of Excess Working Capital*, showing the calculation of the dealer's excess working capital as at the end of the quarter and as at the end of the immediately preceding quarter, if any.

(3) Subsection (2) does not apply to an exempt market dealer.

12.13 Delivering financial information – adviser

A registered adviser must deliver the following to the regulator no later than the 90th day after the end of its financial year:

(a) its annual financial statements for the financial year;

(b) a completed Form 31-103F1 *Calculation of Excess Working Capital*, showing the calculation of the adviser's excess working capital as at the end of the financial year and as at the end of the immediately preceding financial year, if any.

12.14 Delivering financial information – investment fund manager

(1) A registered investment fund manager must deliver the following to the regulator no later than the 90th day after the end of its financial year:

(a) its annual financial statements for the financial year;

(b) a completed Form 31-103F1 *Calculation of Excess Working Capital*, showing the calculation of the investment fund manager's excess working capital as at the end of the financial year and as at the end of the immediately preceding financial year, if any;

(c) a description of any net asset value adjustment made in respect of an investment fund managed by the investment fund manager during the financial year.

(2) A registered investment fund manager must deliver the following to the regulator no later than the 30th day after the end of the first, second and third quarter of its financial year:

(a) its interim financial information for the quarter;

(b) a completed Form 31-103F1 *Calculation of Excess Working Capital*, showing the calculation of the investment fund manager's excess working capital as at the end of the quarter and as at the end of the immediately preceding quarter, if any;

(c) a description of any net asset value adjustment made in respect of an investment fund managed by the investment fund manager during the quarter.

(3) A description of a net asset value adjustment referred to in this section must include the following:

(a) the name of the fund;

(b) assets under administration of the fund;

(c) the cause of the adjustment;

(d) the dollar amount of the adjustment;

(e) the effect of the adjustment on net asset value per unit or share and any corrections made to purchase and sale transactions affecting either the investment fund or security holders of the investment fund.

Part 13 Dealing with clients – individuals and firms

Division 1 Know your client and suitability

13.1 Investment fund managers exempt from this Division

This Division does not apply to an investment fund manager.

13.2 Know your client

(1) For the purpose of paragraph 2(b) in Ontario, Nova Scotia and New Brunswick, "insider" has the meaning ascribed to that term in the *Securities Act* except that "reporting issuer", as it appears in the definition of "insider", is to be read as "reporting issuer or any other issuer whose securities are publicly traded".

(2) A registrant must take reasonable steps to

(a) establish the identity of a client and, if the registrant has cause for concern, make reasonable inquiries as to the reputation of the client,

(b) establish whether the client is an insider of a reporting issuer or any other issuer whose securities are publicly traded,

(c) ensure that it has sufficient information regarding all of the following to enable it to meet its obligations under section 13.3 or, if applicable, the suitability requirement imposed by an SRO:

(i) the client's investment needs and objectives;

(ii) the client's financial circumstances;

(iii) the client's risk tolerance, and

(d) establish the creditworthiness of the client if the registered firm is financing the client's acquisition of a security.

(3) For the purpose of establishing the identity of a client that is a corporation, partnership or trust under paragraph (2)(a), the registrant must establish the following:

(a) the nature of the client's business;

(b) the identity of any individual who,

(i) in the case of a corporation, is a beneficial owner of, or exercises direct or indirect control or direction over, more than 10% of the voting rights attached to the outstanding voting securities of the corporation, or

(ii) in the case of a partnership or trust, exercises control over the affairs of the partnership or trust.

(4) A registrant must take reasonable steps to keep the information required under this section current.

(5) This section does not apply if the client is a registered firm, a Canadian financial institution or a Schedule III bank.

(6) Paragraph (2)(c) does not apply to a registrant in respect of a permitted client if

(a) the permitted client has waived, in writing, the requirements under subsections 13.3(1) and (2), and

(b) the registrant does not act as an adviser in respect of a managed account of the permitted client.

13.3 Suitability

(1) A registrant must take reasonable steps to ensure that, before it makes a recommendation to or accepts an instruction from a client to buy or sell a security, or makes a purchase or sale of a security for a client's managed account, the purchase or sale is suitable for the client.

(2) If a client instructs a registrant to buy, sell or hold a security and in the registrant's reasonable opinion following the instruction would not be suitable for the client, the registrant must inform the client of the registrant's opinion and must not buy or sell the security unless the client instructs the registrant to proceed nonetheless.

(3) This section does not apply if the client is a registered firm, a Canadian financial institution or a Schedule III bank.

(4) This section does not apply to a registrant in respect of a permitted client if

(a) the permitted client has waived, in writing, the requirements under this section, and

(b) the registrant does not act as an adviser in respect of a managed account of the permitted client.

Division 2 Conflicts of interest

13.4 Identifying and responding to conflicts of interest

(1) A registered firm must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that the registered firm in its reasonable opinion would expect to arise, between the firm, including each individual acting on the firm's behalf, and a client.

(2) A registered firm must respond to an existing or potential conflict of interest identified under subsection (1).

(3) If a reasonable investor would expect to be informed of a conflict of interest identified under subsection (1), the registered firm must disclose, in a timely manner, the nature and extent of the conflict of interest to the client whose interest conflicts with the interest identified.

(4) This section does not apply to an investment fund manager in respect of an investment fund that is subject to National Instrument 81-107 *Independent Review Committee for Investment Funds*.

13.5 Restrictions on certain managed account transactions

(1) In this section, "responsible person" means, for a registered adviser,

(a) the adviser,

(b) a partner, director or officer of the adviser, and

(c) each of the following who has access to, or participates in formulating, an investment decision made on behalf of a client of the adviser or advice to be given to a client of the adviser:

(i) an employee or agent of the adviser;

(ii) an affiliate of the adviser;

(iii) a partner, director, officer, employee or agent of an affiliate of the adviser.

(2) A registered adviser must not knowingly cause an investment portfolio managed by it, including an investment fund for which it acts as an adviser, to do any of the following:

(a) purchase a security of an issuer in which a responsible person or an associate of a responsible person is a partner, officer or director unless

(i) this fact is disclosed to the client, and

(ii) the written consent of the client to the purchase is obtained before the purchase;

(b) purchase or sell a security from or to the investment portfolio of any of the following:

(i) a responsible person;

(ii) an associate of a responsible person;

(iii) an investment fund for which a responsible person acts as an adviser;

(c) provide a guarantee or loan to a responsible person or an associate of a responsible person.

13.6 Disclosure when recommending related or connected securities

A registered firm must not make a recommendation in any medium of communication to buy, sell or hold a security issued by the registered firm, a security of a related issuer or, during the security's distribution, a security of a connected issuer of the registered firm, unless any of the following apply:

(a) the firm discloses, in the same medium of communication, the nature and extent of the relationship or connection between the firm and the issuer;

(b) the recommendation is in respect of a security of a mutual fund, a scholarship plan, an educational plan or an educational trust that is an affiliate of the registered firm and the names of the registered firm and the fund, plan or trust, as the case may be, are sufficiently similar to indicate that they are affiliated.

Division 3 Referral arrangements

13.7 Definitions – referral arrangements

In this Division

"client" includes a prospective client; (*client*)

"referral arrangement" means any arrangement in which a registrant agrees to pay or receive a referral fee; (*entente d'indication de clients*)

"referral fee" means any form of compensation, direct or indirect, paid for the referral of a client to or from a registrant.(*commission d'indication de clients*)

13.8 Permitted referral arrangements

A registrant must not participate in a referral arrangement unless,

(a) before a client is referred by or to the registrant, the terms of the referral arrangement are set out in a written agreement between

(i) the registrant,

(ii) the person or company making or receiving the referral, and

(iii) if the registrant is a registered individual, the registered firm on whose behalf the registered individual acts,

(b) the registrant or, if the registrant acts on behalf of a registered firm, the registered firm, records all referral fees on its records, and

(c) the registrant ensures that the information prescribed by subsection 13.10(1) [*disclosing referral arrangements to clients*] is provided to the client in writing before the earlier of the opening of the client's account, or any services are provided to the client, by the person or company receiving the referral.

13.9 Verifying the qualifications of the person or company receiving the referral

A registrant that refers a client to another person or company must take reasonable steps to satisfy himself, herself or itself that the person or company has the appropriate qualifications to provide the services, and if applicable, is registered to provide those services.

13.10 Disclosing referral arrangements to clients

(1) The written disclosure of the referral arrangement required by subsection 13.8(c) [*permitted referral arrangements*] must include the following:

(a) the name of each party to the referral arrangement;

(b) the purpose and material terms of the referral arrangement, including the nature of the services to be provided by each party;

(c) any conflicts of interest resulting from the relationship between the parties to the referral arrangement and from any other element of the referral arrangement;

(d) the method of calculating the referral fee and, to the extent possible, the amount of the fee;

(e) the category of registration of each registrant that is a party to the agreement with a description of the activities that the registrant is authorized to engage in under that category and, giving consideration to the nature of the referral, the activities that the registrant is not permitted to engage in;

(f) if a referral is made to a registrant, a statement that all activity requiring registration resulting from the referral arrangement will be provided by the registrant receiving the referral;

(g) any other information that a reasonable client would consider important in evaluating the referral arrangement.

(2) If there is a change to the information set out in subsection (1), the registrant must ensure that written disclosure of that change is provided to each client affected by the change as soon as possible and no later than the 30th day before the date on which a referral fee is next paid or received.

13.11 Referral arrangements before this Instrument came into force

(1) This Division applies to a referral arrangement entered into before this Instrument came into force if a referral fee is paid under the referral arrangement after this Instrument comes into force.

(2) Subsection (1) does not apply until 6 months after this Instrument comes into force.

Division 4 Loans and margin

13.12 Restriction on lending to clients

A registrant must not lend money, extend credit or provide margin to a client.

13.13 Disclosure when recommending the use of borrowed money

(1) If a registrant recommends that a client should use borrowed money to finance any part of a purchase of a security, the registrant must, before the purchase, provide the client with a written statement that is substantially similar to the following:

> *"Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines."*

(2) Subsection (1) does not apply if

(a) the registrant has provided the client with the statement described under subsection (1) no earlier than the 180th day before the date of the proposed purchase,

(b) the proposed purchase is on margin and the client's margin account is maintained at a registered firm that is a member of IIROC or the MFDA, or

(c) the client is a permitted client.

Division 5 Complaints

13.14 Application of this Division

(1) This Division does not apply to an investment fund manager.

(2) A registered firm in Québec is deemed to comply with this Division if it complies with sections 168.1.1 to 168.1.3 of the *Securities Act* (Québec).

13.15 Handling complaints

A registered firm must document and, in a manner that a reasonable investor would consider fair and effective, respond to each complaint made to the registered firm about any product or service offered by the firm or a representative of the firm.

13.16 Dispute resolution service

(1) A registered firm must ensure that independent dispute resolution or mediation services are made available, at the firm's expense, to a client to resolve a complaint made by the client about any trading or advising activity of the firm or one of its representatives.

(2) If a person or company makes a complaint to a registered firm about any trading or advising activity of the firm or one of its representatives, the registered firm must as soon as possible inform the person or company of how to contact and use the dispute resolution or mediation services which are provided to the firm's clients.

Part 14 Handling client accounts – firms

Division 1 Exemption for investment fund managers

14.1 Investment fund managers exempt from Part 14

Other than section 14.6 [*holding client assets in trust*], this Part does not apply to an investment fund manager.

Division 2 Disclosure to clients

14.2 Relationship disclosure information

(1) A registered firm must deliver to a client all information that a reasonable investor would consider important about the client's relationship with the registrant.

(2) The information required to be delivered under subsection (1) includes all of the following:

(a) a description of the nature or type of the client's account;

(b) a discussion that identifies the products or services the registered firm offers to a client;

(c) a description of the types of risks that a client should consider when making an investment decision;

(d) a description of the risks to a client of using borrowed money to finance a purchase of a security;

(e) a description of the conflicts of interest that the registered firm is required to disclose to a client under securities legislation;

(f) disclosure of all costs to a client for the operation of an account;

(g) a description of the costs a client will pay in making, holding and selling investments;

(h) a description of the compensation paid to the registered firm in relation to the different types of products that a client may purchase through the registered firm;

(i) a description of the content and frequency of reporting for each account or portfolio of a client;

(j) disclosure that independent dispute resolution or mediation services are available to a client, at the firm's expense, to mediate any dispute that might arise between the client and the firm about a product or service of the firm;

(k) a statement that the firm has an obligation to assess whether a purchase or sale of a security is suitable for a client prior to executing the transaction or at any other time;

(l) the information a registered firm must collect about the client under section 13.2 [*know your client*].

(3) A registered firm must deliver to a client the information in subsection (1) before the firm first

(a) purchases or sells a security for the client, or

(b) advises the client to purchase, sell or hold a security.

(4) If there is a significant change to the information delivered to a client under subsection (1), the registered firm must take reasonable steps to notify the client of the change in a timely manner and, if possible, before the firm next

(a) purchases or sells a security for the client, or

(b) advises the client to purchase, sell or hold a security.

(5) This section does not apply if the client is a registered firm, a Canadian financial institution or a Schedule III bank.

(6) This section does not apply to a registrant in respect of a permitted client if

(a) the permitted client has waived, in writing, the requirements under this section, and

(b) the registrant does not act as an adviser in respect of a managed account of the permitted client.

14.3 Disclosure to clients about the fair allocation of investment opportunities

A registered adviser must deliver to a client a summary of the policies required under section 11.1 [*compliance system*] that provide reasonable assurance that the firm and each individual acting on its behalf complies with section 14.10 [*allocating investment opportunities fairly*] and that summary must be delivered

(a) when the adviser opens an account for the client, and

(b) if there is a significant change to the summary last delivered to the client, in a timely manner and, if possible, before the firm next

(i) purchases or sells a security for the client, or

(ii) advises the client to purchase, sell or hold a security.

14.4 When the firm has a relationship with a financial institution

(1) If a registered firm opens a client account to trade in securities, in an office or branch of a Canadian financial institution or a Schedule III bank, the registered firm must give the client a written notice stating that it is a separate legal entity from the Canadian financial institution or Schedule III bank and, unless otherwise advised by the registrant, securities purchased from or through the registrant

(a) are not insured by a government deposit insurer,

(b) are not guaranteed by the Canadian financial institution or Schedule III bank, and

(c) may fluctuate in value.

(2) A registered firm that is subject to subsection (1) must receive a written confirmation from the client that the client has read and understood the notice before the registered firm

(a) purchases or sells a security for the client, or

(b) advises the client to purchase, sell or hold a security.

(3) This section does not apply to a registered firm if the client is a permitted client.

14.5 Notice to clients by non-resident registrants

A registered firm whose head office is not located in the local jurisdiction must provide its clients in the local jurisdiction with a statement in writing disclosing the following:

(a) the non-resident status of the registrant;

(b) the registrant's jurisdiction of residence;

(c) the name and address of the agent for service of process of the registrant in the local jurisdiction;

(d) the nature of risks to clients that legal rights may not be enforceable in the local jurisdiction.

Division 3 Client assets

14.6 Holding client assets in trust

A registered firm that holds client assets must hold the assets

(a) separate and apart from its own property,

(b) in trust for the client, and

(c) in the case of cash, in a designated trust account at a Canadian financial institution, a Schedule III bank, or a member of IIROC.

14.7 Holding client assets – non-resident registrants

(1) A registered firm whose head office is not located in a jurisdiction of Canada must ensure that all client assets are held

(a) in the client's name,

(b) on behalf of the client by a custodian or sub-custodian that

(i) meets the guidelines prescribed for acting as a sub-custodian of the portfolio securities of a mutual fund in Part 6 of National Instrument 81-102 *Mutual Funds*, and

(ii) is subject to the Bank for International Settlements' framework for international convergence of capital measurement and capital standards, or

(c) on behalf of the client by a registered dealer that is a member of an SRO and that is a member of Canadian Investor Protection Fund or other comparable compensation fund or contingency trust fund.

(2) Section 14.6 [*holding client assets in trust*] does not apply to a registered firm that is subject to subsection (1).

14.8 Securities subject to a safekeeping agreement

A registered firm that holds unencumbered securities for a client under a written safekeeping agreement must

(a) segregate the securities from all other securities,

(b) identify the securities as being held in safekeeping for the client in

(i) the registrant's security position record,

(ii) the client's ledger, and

(iii) the client's statement of account, and

(c) release the securities only on an instruction from the client.

14.9 Securities not subject to a safekeeping agreement

(1) A registered firm that holds unencumbered securities for a client other than under a written safekeeping agreement must

(a) segregate and identify the securities as being held in trust for the client, and

(b) describe the securities as being held in segregation on

(i) the registrant's security position record,

(ii) the client's ledger, and

(iii) the client's statement of account.

(2) Securities described in subsection (1) may be segregated in bulk.

Division 4 Client accounts

14.10 Allocating investment opportunities fairly

A registered adviser must ensure fairness in allocating investment opportunities among its clients.

14.11 Selling or assigning client accounts

If a registered firm proposes to sell or assign a client's account in whole or in part to another registrant, the registered firm must, prior to the sale or assignment, give a written explanation of the proposal to the client and inform the client of the client's right to close the client's account.

Division 5 Account activity reporting

14.12 Content and delivery of trade confirmation

(1) Subject to subsection (2), a registered dealer that has acted on behalf of a client in connection with a purchase or sale of a security must promptly deliver to the client a written confirmation of the transaction, setting out the following:

(a) the quantity and description of the security purchased or sold;

(b) the price per security paid or received by the client;

(c) the commission, sales charge, service charge and any other amount charged in respect of the transaction;

(d) whether the registered dealer acted as principal or agent;

(e) the date and the name of the marketplace, if any, on which the transaction took place, or if applicable, a statement that the transaction took place on more than one marketplace or over more than one day;

(f) the name of the dealing representative, if any, in the transaction;

(g) the settlement date of the transaction;

(h) if applicable, that the security is a security of the registrant, a security of a related issuer of the registrant or, if the transaction occurred during the security's distribution, a security of a connected issuer of the registered dealer.

(2) If a transaction under subsection (1) involved more than one transaction or if the transaction took place on more than one marketplace the information referred to in subsection (1) may be set out in the aggregate if the confirmation also contains a statement that additional details concerning the transaction will be provided to the client upon request and without additional charge.

(3) Paragraph (1)(h) does not apply if the security is a security of a mutual fund that is an affiliate of the registered dealer and the names of the dealer and the fund are sufficiently similar to indicate that they are affiliated.

(4) For the purpose of paragraph (1)(f), a dealing representative may be identified by means of a code or symbol if the confirmation also contains a statement that the name of the dealing representative will be provided to the client on request of the client.

14.13 Semi-annual confirmations for certain automatic plans

The requirement under section 14.12 [*content and delivery of trade confirmation*] to deliver a confirmation promptly does not apply to a registered dealer in respect of a transaction if all of the following apply:

(a) the client gave the dealer prior written notice that the transaction is made pursuant to the client's participation in an automatic payment plan, including a dividend reinvestment plan, or an automatic withdrawal plan in which a transaction is made at least monthly;

(b) the registered dealer delivered a confirmation as required under section 14.12 [*content and delivery of trade confirmation*] for the first transaction made under the plan after receiving the notice referred to in paragraph (a);

(c) the transaction is in a security of a mutual fund, scholarship plan, educational plan or educational trust;

(d) the registered dealer delivers the information required under section 14.12 [*content and delivery of trade confirmation*] for the transaction semi-annually to the client or, if the client consents, to a registered adviser acting for the client.

14.14 Client statements

(1) A registered dealer must deliver a statement to a client at least once every 3 months.

(2) Despite subsection (1), a registered dealer, other than a mutual fund dealer, must deliver a statement to a client at the end of a month if any of the following apply:

(a) the client has requested receiving statements on a monthly basis;

(b) during the month, a transaction was effected in the account other than a transaction made under an automatic withdrawal plan or an automatic payment plan, including a dividend reinvestment plan.

(3) Except if the client has otherwise directed, a registered adviser must deliver a statement to a client at least once every 3 months.

(4) A statement delivered under subsection (1), (2) or (3) must include all of the following information for each transaction made for the client during the period covered by the statement:

(a) the date of the transaction;

(b) whether the transaction was a purchase, sale or transfer;

(c) the name of the security purchased or sold;

(d) the number of securities purchased or sold;

(e) the price per security paid or received by the client;

(f) the total value of the transaction.

(5) A statement delivered under subsection (1), (2) or (3) must include all of the following information about the client’s account as at the end of the period for which the statement is made:

(a) the name and quantity of each security in the account;

(b) the market value of each security in the account;

(c) the total market value of each security position in the account;

(d) any cash balance in the account;

(e) the total market value of all cash and securities in the account.

(6) Subsections (1) and (2) do not apply to a scholarship plan dealer if the dealer delivers to the client a statement at least once every 12 months that provides the information in subsections (4) and (5).

Part 15 Granting an exemption

15.1 Who can grant an exemption

(1) The regulator or the securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

(2) Despite subsection (1), in Ontario only the regulator may grant such an exemption.

(3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of National Instrument 14-101 *Definitions* opposite the name of the local jurisdiction.

Part 16 Transition

16.1 Change of registration categories – individuals

On the day this Instrument comes into force, an individual registered in a category referred to in

(a) column 1 of Appendix C [*new category names – individuals*], opposite the name of the local jurisdiction, is registered as a dealing representative,

(b) column 2 of Appendix C [*new category names – individuals*], opposite the name of the local jurisdiction, is registered as an advising representative, and

(c) column 3 of Appendix C [*new category names – individuals*], opposite the name of the local jurisdiction, is registered as an associate advising representative.

16.2 Change of registration categories – firms

On the day this Instrument comes into force, a person or company registered in a category referred to in

(a) column 1 of Appendix D [*new category names – firms*], opposite the name of the local jurisdiction, is registered as an investment dealer,

(b) column 2 of Appendix D [*new category names – firms*], opposite the name of the local jurisdiction, is registered as a mutual fund dealer,

(c) column 3 of Appendix D *[new category names – firms*], opposite the name of the local jurisdiction, is registered as a scholarship plan dealer,

(d) column 4 of Appendix D [*new category names – firms*], opposite the name of the local jurisdiction, is registered as a restricted dealer,

(e) column 5 of Appendix D [*new category names – firms*], opposite the name of the local jurisdiction, is registered as a portfolio manager, and

(f) column 6 of Appendix D [*new category names – firms*], opposite the name of the local jurisdiction, is registered as a restricted portfolio manager.

16.3 Change of registration categories – limited market dealers

(1) This section applies in Ontario and Newfoundland and Labrador.

(2) On the day this Instrument comes into force, a person or company registered as a limited market dealer is registered as an exempt market dealer.

(3) On the day this Instrument comes into force, an individual registered to trade on behalf of a limited market dealer is registered as a dealing representative of the dealer.

(4) Sections 12.1 [*capital requirements*] and 12.2 [*notifying the regulator of a subordination agreement*] do not apply to a person or company registered as an exempt market dealer under subsection (2) until one year after this Instrument comes into force.

(5) Sections 12.3 [*insurance – dealer*] and 12.7 [*notifying the regulator of a change, claim or cancellation*] do not apply to a person or company registered as an exempt market dealer under subsection (2) until 6 months after this Instrument comes into force.

16.4 Registration for investment fund managers active when this Instrument comes into force

(1) The requirement to register as an investment fund manager does not apply to a person or company that is acting as an investment fund manager on the day this Instrument comes into force

(a) until one year after this Instrument comes into force, or

(b) if the person or company applies for registration as an investment fund manager within one year after this Instrument comes into force, until the regulator has accepted or refused the registration.

(2) Subsection (1) is repealed one year after this Instrument comes into force.

(3) Section 12.5 [*insurance – investment fund manager*] does not apply to a registered dealer or registered adviser that is acting as an investment fund manager on the day this Instrument comes into force.

(4) Subsection (3) is repealed one year after this Instrument comes into force.

16.5 Temporary exemption for Canadian investment fund manager registered in its principal jurisdiction

(1) An investment fund manager is not required to register in the local jurisdiction if it is registered, or has applied for registration, in the jurisdiction of Canada in which its head office is located.

(2) Subsection (1) is repealed 2 years after this Instrument comes into force .

16.6 Temporary exemption for foreign investment fund managers

(1) The investment fund manager registration requirement does not apply to a person or company that is acting as an investment fund manager if its head office is in not in a jurisdiction of Canada.

(2) Subsection (1) is repealed 2 years after this Instrument comes into force .

16.7 Registration of exempt market dealers

(1) This section does not apply in Ontario and Newfoundland and Labrador.

(2) In this section, “the exempt market” means those trading and underwriting activities listed in subparagraph 7.1(2)(d) [*dealer categories*].

(3) The requirement to register as an exempt market dealer does not apply to a person or company that acts as a dealer in the exempt market on the day this Instrument comes into force

(a) until one year after this Instrument comes into force, or

(b) if the person or company applies for registration as an exempt market dealer within one year after this Instrument comes into force, until the regulator has accepted or refused the registration.

(4) The requirement to register as a dealing representative of an exempt market dealer does not apply to an individual who acts as a dealer in the exempt market on the day this Instrument comes into force

(a) until one year after this Instrument comes into force, or

(b) if the individual applies to be registered as a dealing representative of an exempt market dealer within one year after this Instrument comes into force, until the regulator has accepted or refused the registration.

16.8 Registration of ultimate designated persons

If a person or company is a registered firm on the day this Instrument comes into force, section 11.2 [*designating an ultimate designated person*] does not apply to the firm

(a) until 3 months after this Instrument comes into force, or

(b) if an individual applies to be registered as the ultimate designated person of the firm within 3 months after this Instrument comes into force, until the regulator has accepted or refused the registration.

16.9 Registration of chief compliance officers

(1) If a person or company is a registered firm on the date this Instrument comes into force, section 11.3 [*designating a chief compliance officer*] does not apply to the firm

(a) until 3 months after this Instrument comes into force, or

(b) if an individual applies to be registered as the chief compliance officer of the firm within 3 months after this Instrument comes into force, until the regulator has accepted or refused the registration.

(2) If an individual applies to be registered as the chief compliance officer of a registered firm within 3 months after this Instrument comes into force and the individual was identified on the National Registration Database as the firm's compliance officer on the date this Instrument came into force, the following sections do not apply in respect of the individual so long as he or she remains registered as the firm's chief compliance officer:

(a) section 3.6 [*mutual fund dealer – chief compliance officer*], if the registered firm is a mutual fund dealer;

(b) section 3.8 [*scholarship plan dealer – chief compliance officer*], if the registered firm is a scholarship plan dealer;

(c) section 3.10 [*exempt market dealer – chief compliance officer*], if the registered firm is an exempt market dealer;

(d) section 3.13 [*portfolio manager – chief compliance officer*], if the registered firm is a portfolio manager.

(3) If an individual applies to be registered as the chief compliance officer of a registered firm within 3 months after this Instrument comes into force and the individual was not identified on the National Registration Database as the firm's

compliance officer on the date this Instrument came into force, the following sections do not apply in respect of the individual until one year after this Instrument comes into force:

(a) section 3.6 [*mutual fund dealer – chief compliance officer*], if the registered firm is a mutual fund dealer;

(b) section 3.8 [*scholarship plan dealer – chief compliance officer*], if the registered firm is a scholarship plan dealer;

(c) section 3.10 [*exempt market dealer – chief compliance officer*], if the registered firm is an exempt market dealer;

(d) section 3.13 [*portfolio manager – chief compliance officer*], if the registered firm is a portfolio manager.

(4) In Ontario and Newfoundland and Labrador, despite paragraphs (2)(c) and (3)(c), if an individual applies to be registered as the chief compliance officer of an exempt market dealer within 3 months after this Instrument comes into force, section 3.10 [*exempt market dealer – chief compliance officer*] does not apply in respect of the individual until one year after this Instrument comes into force.

16.10 Proficiency for dealing and advising representatives

(1) Subject to subsections (2) and (3), if an individual is registered as a dealing or advising representative in a category referred to in a section of Division 2 of Part 3 [*education and experience requirements*] on the day this Instrument comes into force, that section does not apply to the individual so long as the individual remains registered in the category.

(2) Section 3.7 [*scholarship plan dealer – dealing representative*] does not apply to an individual until one year after this Instrument comes into force if the individual is registered as a dealing representative of a scholarship plan dealer on the day this Instrument comes into force.

(3) In Ontario and Newfoundland and Labrador, section 3.9 [*exempt market dealer – dealing representative*] does not apply to an individual until one year after this Instrument comes into force if the individual is registered as a dealing representative of an exempt market dealer on the day this Instrument comes into force.

16.11 Capital requirements

(1) A person or company that is a registered firm on the day this Instrument comes into force is exempt from sections 12.1 [*capital requirements*] and 12.2 [*notifying the regulator of a subordination agreement*] if it complies with each provision listed in Appendix E [*non-harmonized capital requirements*] across from the name of the firm's principal jurisdiction.

(2) Subsection (1) is repealed one year after this Instrument comes into force.

16.12 Continuation of existing discretionary relief

A person or company that was entitled to rely on an exemption, waiver or approval granted to it by a regulator or securities regulatory authority relating to a requirement under securities legislation or securities directions existing immediately before this Instrument came into force is exempt from any substantially similar provision of this Instrument to the same extent and on the same conditions, if any, as contained in the exemption, waiver or approval.

16.13 Insurance requirements

(1) A person or company that is a registered firm on the day this Instrument comes into force is exempt from sections 12.3 [*insurance – dealer*] to 12.7 [*notifying the regulator of a change, claim or cancellation*] if it complies with each provision listed in Appendix F [*non-harmonized insurance requirements*] across from the name of the firm's principal jurisdiction.

(2) In Québec, subsection (1), does not apply to a registered firm that is a mutual fund dealer or a scholarship plan dealer on the day this Instrument comes into force.

(3) Subsections (1) and (2) are repealed 6 months after this Instrument comes into force.

16.14 Relationship disclosure information

(1) Section 14.2 [*relationship disclosure information*] does not apply to a person or company that is a registrant on the day this Instrument comes into force.

(2) Subsection (1) is repealed one year after this Instrument comes into force.

16.15 Referral arrangements

(1) Division 3 [*referral arrangements*] of Part 13 does not apply to a person or company that is a registrant on the day this Instrument comes into force.

(2) Subsection (1) is repealed 6 months after this Instrument comes into force.

16.16 Complaint handling

(1) In each jurisdiction of Canada except Québec, section 13.16 [*dispute resolution service*] does not apply to a person or company that is a registered firm on the day this Instrument comes into force.

(2) Subsection (1) is repealed 2 years after this Instrument comes into force .

16.17 Client statements – mutual fund dealers

(1) Section 14.14 [*client statements*] does not apply to a person or company that is a mutual fund dealer on the day this Instrument comes into force.

(2) Subsection (1) is repealed 2 years after this Instrument comes into force .

16.18 Transition to exemption – international dealers

(1) This section applies in Ontario and Newfoundland and Labrador.

(2) If a person or company is registered in the category of international dealer on the day this Instrument comes into force, its registration in that category is revoked.

(3) If a person or company is registered in the category of international dealer on the day this Instrument comes into force, paragraphs 8.18(3)(e) and 8.18(4)(b) [*international dealer*] do not apply to the person or company until one month after this Instrument comes into force.

16.19 Transition to exemption – international advisers

(1) This section applies in Ontario.

(2) If a person or company is registered in the category of international adviser on the day this Instrument comes into force, its registration in that category is revoked one year after this Instrument comes into force.

(3) If the registration of a person or company is revoked under subsection (2), the registration of each individual registered to act as an adviser on behalf of the person or company is revoked.

(4) If a person or company is registered in the category of international adviser on the day this Instrument comes into force, paragraphs (e) and (f) of subsection 8.26(4) [*international adviser*] do not apply to the person or company until one year after this Instrument comes into force.

16.20 Transition to exemption – portfolio manager and investment counsel (foreign)

(1) This section applies in Alberta.

(2) If a person or company is registered in the category of portfolio manager and investment counsel (foreign) on the day this Instrument comes into force, its registration in that category is revoked one year after this Instrument comes into force.

(3) If the registration of a person or company is revoked under subsection (2), the registration of each individual registered to act as an adviser on behalf of the person or company is revoked.

(4) If a person or company is registered in the category of portfolio manager and investment counsel (foreign) on the day this Instrument comes into force, paragraphs (e) and (f) of subsection 8.26(4) [*international adviser*] do not apply to the person or company until one year after this Instrument comes into force.

Part 17 When this Instrument comes into force

17.1 Effective date

(1) Except in Ontario, this Instrument comes into force on September 28, 2009.

(2) In Ontario, this Instrument comes into force on the later of the following:

(a) September 28, 2009;

(b) the day on which sections 4, 5 and subsections 20(1) to (11) of Schedule 26 of the *Budget Measures Act, 2009* are proclaimed in force.

FORM 31-103F1 CALCULATION OF EXCESS WORKING CAPITAL

_____
Firm Name

Capital Calculation
(as at _____ with comparative figures as at _____)

	Component	Current period	Prior period
1.	Current assets		
2.	Less current assets not readily convertible into cash (e.g., prepaid expenses)		
3.	Adjusted current assets Line 1 minus line 2 =		
4.	Current liabilities		
5.	Add 100% of long-term related party debt unless the firm and the lender have executed a subordination agreement in the form set out in Appendix B and the firm has delivered a copy of the agreement to the regulator		
6.	Adjusted current liabilities Line 4 plus line 5 =		
7.	Adjusted working capital Line 3 minus line 6 =		
8.	Less minimum capital		
9.	Less market risk		
10.	Less any deductible under the firm's bonding or insurance policy		
11.	Less Guarantees		
12.	Less unresolved differences		
13.	**Excess working capital**		

Notes:

This form must be prepared on an unconsolidated basis.

Line 8. Minimum Capital – The amount on this line must be not less than (a) $25,000 for an adviser, (b) $50,000 for a dealer, and (c) $100,000 for an investment fund manager.

Line 9. Market Risk – The amount on this line must be calculated according to the instructions set out in Schedule 1 to this Form.

Line 11. Guarantees – If the registered firm is guaranteeing the liability of another party, the total amount of the guarantee must be included in the capital calculation. If the amount of a guarantee is included in the firm's balance sheet as a current liability and is reflected in line 4, do not include the amount of the guarantee on line 11.

Line 12. Unresolved differences – Any unresolved differences that could result in a loss from either firm or client assets must be included in the capital calculation.

The examples below provide guidance as to how to calculate unresolved differences:

(i) If there is an unresolved difference relating to client securities, the amount to be reported on Line 12 will be equal to the market value of the client securities that are short, plus the applicable margin rate for those securities.

(ii) If there is an unresolved difference relating to the registrant's investments, the amount to be reported on Line 12 will be equal to the market value of the investments (securities) that are short.

(iii) If there is an unresolved difference relating to cash, the amount to be reported on Line 12 will be equal to the amount of the shortfall in cash.

Management Certification

Registered Firm Name: _____

We have examined the attached capital calculation and certify that the firm is in compliance with the capital requirements as at _____.

	Name and Title	**Signature**	**Date**
1.	_____	_____	_____
2.	_____	_____	_____

Schedule 1 of Form 31-103F1 Calculation of Excess Working Capital
(calculating line 9 [market risk])

For each security whose value is included in line 1, Current Assets, multiply the market value of the security by the margin rate for that security set out below. Add up the resulting amounts for all of the securities you hold. The total is the "market risk" to be entered on line 9.

(a) Bonds, Debentures, Treasury Bills and Notes

(i) Bonds, debentures, treasury bills and other securities of or guaranteed by the Government of Canada, of the United Kingdom, of the United States of America and of any other national foreign government (provided such foreign government securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively), maturing (or called for redemption):

within 1 year	1% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year to 3 years	1 % of market value
over 3 years to 7 years	2% of market value
over 7 years to 11 years	4% of market value
over 11 years	4% of market value

(ii) Bonds, debentures, treasury bills and other securities of or guaranteed by any province of Canada and obligations of the International Bank for Reconstruction and Development, maturing (or called for redemption):

within 1 year	2% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year to 3 years	3 % of market value
over 3 years to 7 years	4% of market value
over 7 years to 11 years	5% of market value
over 11 years	5% of market value

(iii) Bonds, debentures or notes (not in default) of or guaranteed by any municipal corporation in Canada or the United Kingdom maturing:

within 1 year	3% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year to 3 years	5 % of market value
over 3 years to 7 years	5% of market value
over 7 years to 11 years	5% of market value
over 11 years	5% of market value

(iv) Other non-commercial bonds and debentures, (not in default):

10% of market value

(v) Commercial and corporate bonds, debentures and notes (not in default) and non-negotiable and non-transferable trust company and mortgage loan company obligations registered in the registered firm’s name maturing:

within 1 year	3% of market value
over 1 year to 3 years	6 % of market value
over 3 years to 7 years	7% of market value
over 7 years to 11 years	10% of market value
over 11 years	10% of market value

(b) Bank Paper

Deposit certificates, promissory notes or debentures issued by a Canadian chartered bank (and of Canadian chartered bank acceptances) maturing:

within 1 year	2% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year	apply rates for commercial and corporate bonds, debentures and notes

(c) Acceptable foreign bank paper

Deposit certificates, promissory notes or debentures issued by a foreign bank, readily negotiable and transferable and maturing:

within 1 year	2% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year	apply rates for commercial and corporate bonds, debentures and notes

"Acceptable Foreign Bank Paper" consists of deposit certificates or promissory notes issued by a bank other than a Canadian chartered bank with a net worth (i.e., capital plus reserves) of not less than $200,000,000.

(d) Mutual Funds

Where securities of mutual funds qualified by prospectus for sale in any province of Canada, the margin required is:

(i) 5% of the market value of the fund, where the fund is a money market mutual fund as defined in National Instrument 81-102; or

(ii) the margin rate determined on the same basis as for listed stocks multiplied by the market value of the fund.

(e) Stocks

(i) On securities (other than bonds and debentures) including rights and warrants listed on any exchange in Canada or the United States:

Long Positions – Margin Required

Securities selling at $2.00 or more – 50% of market value

Securities selling at $1.75 to $1.99 – 60% of market value

Securities selling at $1.50 to $1.74 – 80% of market value

Securities selling under $1.50 – 100% of market value

Short Positions – Credit Required

Securities selling at $2.00 or more – 150% of market value

Securities selling at $1.50 to $1.99 - $3.00 per share

Securities selling at $0.25 to $1.49 – 200% of market value

Securities selling at less than $0.25 – market value plus $0.25 per shares

(ii) For positions in securities (other than bonds and debentures but including warrants and rights), 50% of the market value if the security is a constituent security on a major broadly-based index of one of the following exchanges:

(a) American Stock Exchange
(b) Australian Stock Exchange Limited
(c) Bolsa de Valores de Sao Paulo
(d) Borsa Italiana
(e) Boston Stock Exchange
(f) Chicago Board of Options Exchange
(g) Chicago Board of Trade
(h) Chicago Mercantile Exchange
(i) Chicago Stock Exchange
(j) Euronext Amsterdam
(k) Euronext Brussels
(l) Euronext Paris S.A.
(m) Frankfurt Stock Exchange
(n) London International Financial Futures and Options Exchange
(o) London Stock Exchange
(p) Montreal Exchange
(q) New York Mercantile Exchange
(r) New York Stock Exchange
(s) New Zealand Exchange Limited
(t) Pacific Exchange
(u) Swiss Exchange
(v) The Stock Exchange of Hong Kong Limited
(w) Tokyo Stock Exchange
(x) Toronto Stock Exchange
(y) TSX Venture Exchange

(f) **For all other securities** – 100% of market value.

FORM 31-103F2 SUBMISSION TO JURISDICTION AND APPOINTMENT OF AGENT FOR SERVICE

(sections 8.18 [international dealer] and 8.26 [international adviser])

1. Name of person or company (“International Firm”):

2. Jurisdiction of incorporation of the International Firm:

3. Head office address of the International Firm:

4. Section of NI 31-103 the International Firm is relying on:

   ☐ Section 8.18 [*international dealer*]
   ☐ Section 8.26 [*international adviser*]
   ☐ Other

5. Name of agent for service of process (the "Agent for Service"):

6. Address for service of process on the Agent for Service:

7. The International Firm designates and appoints the Agent for Service at the address stated above as its agent upon whom may be served a notice, pleading, subpoena, summons or other process in any action, investigation or administrative, criminal, quasi-criminal or other proceeding (a "Proceeding") arising out of or relating to or concerning the International Firm's activities in the local jurisdiction and irrevocably waives any right to raise as a defense in any such proceeding any alleged lack of jurisdiction to bring such Proceeding.

8. The International Firm irrevocably and unconditionally submits to the non-exclusive jurisdiction of the judicial, quasi-judicial and administrative tribunals of the local jurisdiction in any Proceeding arising out of or related to or concerning the International Firm's activities in the local jurisdiction.

9. Until 6 years after the International Firm ceases to rely on section 8.18 [*international dealer*] or section 8.26 [*international adviser*], the International Firm must submit to the securities regulatory authority

   a. a new Submission to Jurisdiction and Appointment of Agent for Service in this form no later than the 30th day before the date this Submission to Jurisdiction and Appointment of Agent for Service is terminated; and

   b. an amended Submission to Jurisdiction and Appointment of Agent for Service no later than the 30th day before any change in the name or above address of the Agent for Service.

10. This Submission to Jurisdiction and Appointment of Agent for Service is governed by and construed in accordance with the laws of the local jurisdiction.

Dated: _____

_____
(Signature of the International Firm or authorized signatory)

_____
(Name and Title of authorized signatory)

Acceptance

The undersigned accepts the appointment as Agent for Service of (Insert name of International Firm) under the terms and conditions of the foregoing Submission to Jurisdiction and Appointment of Agent for Service.

Dated: _____

_____

(Signature of Agent for Service or authorized signatory)

_____

(Name and Title of authorized signatory)

FORM 31-103F3 USE OF MOBILITY EXEMPTION

(section 2.2 [client mobility exemption – individuals])

This is to notify the securities regulatory authority that the individual named in paragraph 1 is relying on the exemption in section 2.2 [*client mobility exemption – individuals*] of National Instrument 31-103 *Registration Requirements and Exemptions*.

1. Individual information

Name of individual: _____

NRD number of individual:_____

The individual is relying on the client mobility exemption in each of the following jurisdictions of Canada:

_____

2. Firm information

Name of the individual's sponsoring firm:
_____

NRD number of firm:_____

Dated: _____

_____
(Signature of an authorized signatory of the individual's sponsoring firm)

_____
(Name and title of authorized signatory)

APPENDIX A – BONDING AND INSURANCE CLAUSES

(section 12.3 [insurance – dealer], section 12.4 [insurance – adviser] and section 12.5 [insurance – investment fund manager])

Clause	Name of Clause	Details
A	Fidelity	This clause insures against any loss through dishonest or fraudulent act of employees.
B	On Premises	This clause insures against any loss of money and securities or other property through robbery, burglary, theft, hold-up, or other fraudulent means, mysterious disappearance, damage or destruction while within any of the insured's offices, the offices of any banking institution or clearing house or within any recognized place of safe-deposit.
C	In Transit	This clause insures against any loss of money and securities or other property through robbery, burglary, theft, hold-up, misplacement, mysterious disappearance, damage or destruction, while in transit in the custody of any employee or any person acting as messenger except while in the mail or with a carrier for hire other than an armoured motor vehicle company.
D	Forgery or Alterations	This clause insures against any loss through forgery or alteration of any cheques, drafts, promissory notes or other written orders or directions to pay sums in money, excluding securities.
E	Securities	This clause insures against any loss through having purchased or acquired, sold or delivered, or extended any credit or acted upon securities or other written instruments which prove to have been forged, counterfeited, raised or altered, or lost or stolen, or through having guaranteed in writing or witnessed any signatures upon any transfers, assignments or other documents or written instruments.

APPENDIX B – SUBORDINATION AGREEMENT

(Line 5 of Form 31-103F1 Calculation of excess working capital)

SUBORDINATION AGREEMENT

THIS AGREEMENT is made as of the ____ day of _____, 20___

BETWEEN:

[insert name]

(the "**Lender**")

AND

[insert name]

(the "**Registered Firm**", which term shall include all successors and assigns of the Registered Firm)

(collectively, the "**Parties**")

This Agreement is entered into by the Parties under National Instrument 31-103 *Registration Requirements and Exemptions* ("**NI 31-103**") in connection with a loan made on the ____day of _____, 20__ by the Lender to the Registered Firm in the amount of $ _____(the "**Loan**") for the purpose of allowing the Registered Firm to carry on its business.

For good and valuable consideration, the Parties agree as follows:

1. Subordination

The repayment of the loan and all amounts owned thereunder are subordinate to the claims of the other creditors of the Registered Firm.

2. Dissolution, winding-up, liquidation, insolvency or bankruptcy of the Registered Firm

In the event of the dissolution, winding-up, liquidation, insolvency or bankruptcy of the Registered Firm:

(a) the creditors of the Registered Firm shall be paid their existing claims in full in priority to the claims of the Lender;

(b) the Lender shall not be entitled to make any claim upon any property belonging or having belonged to the Registered Firm, including asserting the right to receive any payment in respect to the Loan before the existing claims of the other creditors of the Registered Firm have been settled.

3. Terms and conditions of the Loan

During the term of this Agreement:

(a) interest can be paid at the agreed upon rate and time, provided that the payment of such interest does not result in a capital deficiency under NI 31-103;

(b) any loan or advance or posting of security for a loan or advance by the Registered Firm to the Lender, shall be deemed to be a payment on account of the Loan.

4. Notice to the Securities Regulatory Authority

The Registered Firm must notify the Securities Regulatory Authority prior to the full or partial repayment of the loan. Further documentation may be requested by the Securities Regulatory Authority after receiving the notice from the Registered Firm.

5. Termination of this Agreement

This Agreement may only be terminated by the Lender once the notice required pursuant to Section 4 of this Agreement is received by the Securities Regulatory Authority.

The Parties have executed and delivered this Agreement as of the date set out above.

[Registered Firm]

_____
Authorized signatory

_____
Authorized signatory

[Lender]

_____
Authorized signatory

_____
Authorized signatory

APPENDIX C – NEW CATEGORY NAMES – INDIVIDUALS
(Section 16.1 [change of registration categories – individuals])

	Column 1 **[*dealing representative*]**	**Column 2** **[*advising representative*]**	**Column 3** **[*associate advising representative*]**
Alberta	Officer (Trading) Salesperson Partner (Trading)	Officer (Advising) Advising Employee Partner (Trading)	Junior Officer (Advising)
British Columbia	Salesperson Trading Partner Trading Director Trading Officer	Advising Employee Advising Partner Advising Director Advising Officer	--
Manitoba	Salesperson Branch Manager Trading Partner Trading Director Trading Officer	Advising Employee Advising Officer Advising Director Advising Partner	Associate Advising Officer Associate Advising Director Associate Advising Partner Associate Advising Employee
New Brunswick	Salesperson Officer (trading) Partner (trading)	Representative (advising) Officer (advising) Partner (advising) Sole proprietor (advising)	Associate officer (advising), Associate partner (advising), Associate representative (advising)
Newfoundland and Labrador	Sales Person Officer (Trading) Partner (Trading)	Officer (Advising) Partner (Advising)	--
Nova Scotia	Salesperson Officer – trading Partner- trading Director - trading	Officer- advising Officer – counseling Partner- advising Partner- counseling Director- advising Director- counseling	--
Ontario	Salesperson Officer (Trading) Partner (Trading) Sole Proprietor	Advising Representative Officer (Advising) Partner (Advising) Sole Proprietor	--
Prince Edward Island	Salesperson Officer (Trading) Partner (Trading)	Counselling Officer (Officer) Counselling Officer (Partner) Counselling Officer (Other)	--
Québec	Representative, Representative - Group Savings Plan (salesperson), Representative - Scholarship Plan (salesperson)	Representative (Portfolio Manager), Representative (Advising), Representative – Options, Representative - Futures	--
Saskatchewan	Officer (Trading) Partner (Trading) Salesperson	Officer (Advising) Partner (Advising) Employee (Advising)	--
Northwest Territories	Salesperson Officer (Trading) Partner (Trading)	Representative (Advising) Officer (Advising) Partner (Advising)	--
Nunavut	Salesperson Officer (Trading) Partner (Trading)	Representative (Advising) Officer (Advising) Partner (Advising)	--
Yukon	Salesperson Officer (Trading)	Representative (Advising) Officer (Advising)	--

	Partner (Trading) Sole proprietor (Trading)	Partner (Advising)	

APPENDIX D – NEW CATEGORY NAMES – FIRMS

(Section 16.2 [change of registration categories – firms])

	Column 1 [*investment dealer*]	**Column 2 *[mutual fund dealer*]**	**Column 3 [*scholarship plan dealer*]**	**Column 4 [*restricted dealer*]**	**Column 5 [*portfolio manager*]**	**Column 6 [*restricted portfolio manager*]**
Alberta	investment dealer	mutual fund dealer	scholarship plan dealer	dealer, dealer (exchange contracts), dealer (restricted)	investment counsel and/or portfolio manager	portfolio manager/ investment counsel (exchange contracts)
British Columbia	investment dealer	mutual fund dealer	scholarship plan dealer	exchange contracts dealer, special limited dealer	investment counsel or portfolio manager	--
Manitoba	investment dealer	mutual fund dealer	scholarship plan dealer	--	investment counsel or portfolio manager	--
New Brunswick	investment dealer	mutual fund dealer	scholarship plan dealer	--	investment counsel and portfolio manager	--
Newfoundland and Labrador	investment dealer	mutual fund dealer	scholarship plan dealer	--	investment counsel or portfolio manager	--
Nova Scotia	investment dealer	mutual fund dealer	scholarship plan dealer	--	investment counsel or portfolio manager	--
Ontario	investment dealer	mutual fund dealer	scholarship plan dealer	--	investment counsel or portfolio manager	--
Prince Edward Island	investment dealer	mutual fund dealer	scholarship plan dealer	--	investment counsel or portfolio manager	--
Québec	unrestricted practice dealer, unrestricted practice dealer (introducing broker), unrestricted practice dealer (International Financial Centre), discount broker	firm in group savings-plan brokerage	scholarship plan dealer	Québec Business investment company (QBIC) Debt securities dealer restricted practice Dealer firm in investment contract brokerage unrestrict-	unrestricted practice adviser, unrestricted practice adviser (International Financial Centre)	restricted practice advisor

	Column 1 [*investment dealer*]	**Column 2 *[mutual fund dealer*]**	**Column 3 [*scholarship plan dealer*]**	**Column 4 [*restricted dealer*]**	**Column 5 [*portfolio manager*]**	**Column 6 [*restricted portfolio manager*]**
				ed practice dealer (Nasdaq)		
Saskatchewan	investment dealer	mutual fund dealer	scholarship plan dealer	--	investment counsel or portfolio manager	--
Northwest Territories	investment dealer	mutual fund dealer	scholarship plan dealer	--	investment counsel or portfolio manager	--
Nunavut	investment dealer	mutual fund dealer	scholarship plan dealer	--	investment counsel or portfolio manager	--
Yukon	broker	broker	scholarship plan dealer	--	broker	--

APPENDIX E – NON-HARMONIZED CAPITAL REQUIREMENTS

(Section 12.1 [capital requirements])

Alberta	Sections 23 and 24 of the *Alberta Securities Commission Rules* (General)
British Columbia	Sections 19, 20, 24 and 25 of the *Securities Rules*. Sections 2.1(i), 2.3(i), 9.4, 13.3, 15.4 and 16.3 of BC Policy 31-601 *Registration Requirements*.
Manitoba	None in the Act or Regulations – Handled through terms and conditions
New Brunswick	Sections 7.1, 7.2, 7.3, 7.4 and 7.5 of New Brunswick Local Rule 31-501 *Registration Requirements*, as those sections read immediately before revocation
Newfoundland and Labrador	Sections 84, 85, 95, 96, 97 and 99 of the Securities Regulations under the *Securities Act* (O.C. 96-286)
Nova Scotia	Section 23 of the *General Securities Rules*, as the section read immediately before revocation
Ontario	Sections 96, 97, 107, 111 of the Ontario Regulation 1015 made under the *Securities Act*, as those sections read immediately before revocation
Prince Edward Island	Section 34 of the former Securities Act Regulations and incorporated by reference by Local Rule 31-501 (*Transitional Registration Requirements*)
Québec	Sections 207 to 209, 211 and 212 of the Québec *Securities Regulation* or sections 8 to 11 of the Regulation respecting the trust accounts of financial resources of securities firms as those sections read immediately before repeal
Saskatchewan	Sections 19 and 24 of *The Securities Regulations* (Saskatchewan) as those sections read immediately before revocation
Northwest Territories	None in the Act, Regulations, or local rules – Handled through terms and conditions
Nunavut	None in the Act, Regulations, or local rules – Handled through terms and conditions
Yukon	Local Rule 31-501 *Registration Requirements*

APPENDIX F – NON-HARMONIZED INSURANCE REQUIREMENTS

(Section 16.13 [insurance requirements])

Alberta	Sections 25 and 26 of the *Alberta Securities Commission Rules* (General)
British Columbia	Sections 21 and 22 of the *Securities Rules* Sections 2.1(h), 2.3(h) and 2.5(h) of BC Policy 31-601 *Registration Requirements*
Manitoba	Subsection 7(4) of the *Securities Act* – general requirement at Director's discretion
New Brunswick	Sections 8.1, 8.2, 8.3 and 8.7 of New Brunswick Local Rule 31-501 *Registration Requirements*, as those sections read immediately before revocation
Newfoundland and Labrador	Sections 95, 96, and 97 of the Securities Regulations under the *Securities Act* (O.C. 96-286)
Nova Scotia	Section 24 of the *General Securities Rules*, as the section read immediately before revocation
Ontario	Sections 96, 97, 108, 109 of the Ontario Regulation 1015 made under the Securities Act, as those sections read immediately before revocation
Prince Edward Island	Section 35 of the former Securities Act Regulations and incorporated by reference by Local Rule 31-501 (*Transitional Registration Requirements*)
Québec	Section 213 and 214 of the Québec *Securities Regulation* as those sections read immediately before repeal
Saskatchewan	Section 33 of *The Securities Act*, 1988 (Saskatchewan), as that section read immediately before repeal Sections 20, 21 and 22 of *The Securities Regulations* (Saskatchewan), as those sections read immediately before revocation
Northwest Territories	Section 4 of Local Rule 31-501 *Registration*
Nunavut	None in the Act, Regulations, or local rules – Handled through terms and conditions
Yukon	Local Rule 31-501 *Registration Requirements*

COMPANION POLICY 31-103CP
REGISTRATION REQUIREMENTS AND EXEMPTIONS

Table of Contents

Part 1 Definitions and fundamental concepts

1.1 Introduction

This Companion Policy sets out how the Canadian Securities Administrators (the CSA or we) interpret or apply the provisions of National Instrument 31-103 *Registration Requirements and Exemptions* (NI 31-103) and related securities legislation.

Except for Part 1, the numbering of Parts, Divisions and sections in this Companion Policy correspond to the numbering in NI 31-103. Any general guidance for a Part or a Division appears immediately after the Part or Division name. Any specific guidance on sections in NI 31-103 follows any general guidance. If there is no guidance for a Part, Division or section, the numbering in this Companion Policy will skip to the next provision that does have guidance.

All references in this Companion Policy to sections, Parts and Divisions are to NI 31-103, unless otherwise noted.

For additional requirements that may apply to them, registrants should refer to:

- National Instrument 31-102 *National Registration Database* (NI 31-102) and the Companion Policy to NI 31-102
- National Instrument 33-109 *Registration Information* (NI 33-109) and the Companion Policy to NI 33-109
- National Policy 11-204 *Process for Registration in Multiple Jurisdictions* (NP 11-204), and
- securities legislation in their jurisdiction

Registrants that are members of a self-regulatory organization (SRO) must also comply with their SRO's requirements.

Delivering disclosure and notices
Registrants must deliver all disclosure and notices required under NI 31-103 to the registrant's principal regulator, except for notices under sections:

- 8.18 *International dealer*
- 8.26 *International adviser*
- 11.9 *Registrant acquiring a registered firm's securities or assets*, and
- 11.10 *Registered firm whose securities are acquired*

Registrants must deliver these notices to the regulator in each jurisdiction where they are registered.

These documents may be delivered electronically. Registrants should refer to National Policy 11-201 *Delivery of Documents by Electronic Means* and, in Québec, Notice 11-201 *Delivery of Documents by Electronic Means*.

See Appendix A for contact information for each regulator.

1.2 Definitions

Unless defined in NI 31-103, terms used in NI 31-103 and in this Companion Policy have the meaning given to them in the securities legislation of each jurisdiction or in National Instrument 14-101 *Definitions*. See Appendix B for a list of some terms that are not defined in NI 31-103 or this Companion Policy but are defined in other securities legislation.

In this Companion Policy, "regulator" means the regulator or securities regulatory authority in a jurisdiction.

Permitted client
The following discussion provides guidance on the term "permitted client", which is defined in section 1.1 of NI 31-103.

"Permitted client" is used in the following sections:

- 8.18 *International dealer*
- 8.26 *International adviser*
- 13.2 *Know your client*
- 13.3 *Suitability*
- 13.13 *Disclosure when recommending the use of borrowed money*
- 14.2 *Relationship disclosure information,* and
- 14.4 *When the firm has a relationship with a financial institution*

Exemptions from registration when dealing with permitted clients
NI 31-103 exempts international dealers and international advisers from the registration requirement if they deal with certain permitted clients and meet certain other conditions.

Exemptions from other requirements when dealing with permitted clients

Under section 13.3, permitted clients may waive their right to have a registrant determine that a trade is suitable. In order to rely on this exemption, the registrant must determine that a client is a permitted client at the time the client waives their right to suitability.

Under sections 13.13, 14.2 and 14.4, registrants do not have to provide certain disclosures to permitted clients. In order to rely on these exemptions, registrants must determine that a client is a permitted client at the time the client opens an account.

Determining assets
The definition of permitted client includes monetary thresholds based on the value of the client's assets. The monetary thresholds in paragraphs (o) and (q) of the definition are intended to create "bright-line" standards. Investors who do not satisfy these thresholds do not qualify as permitted clients under the applicable paragraph.

Paragraph (o) of the definition
Paragraph (o) refers to an individual who beneficially owns financial assets with an aggregate realizable value that exceeds $5 million, before taxes but net of any related liabilities.

In general, determining whether financial assets are beneficially owned by an individual should be straightforward. However, this determination may be more difficult if financial assets are held in a trust or in other types of investment vehicles for the benefit of an individual.

Factors indicating beneficial ownership of financial assets include:

- possession of evidence of ownership of the financial asset
- entitlement to receive any income generated by the financial asset
- risk of loss of the value of the financial asset, and
- the ability to dispose of the financial asset or otherwise deal with it as the individual sees fit

For example, securities held in a self-directed RRSP for the sole benefit of an individual are beneficially owned by that individual. Securities held in a group RRSP are not beneficially owned if the individual cannot acquire and deal with the securities directly.

"Financial assets" is defined in section 1.1 of National Instrument 45-106 *Prospectus and Registration Exemptions* (NI 45-106).

Realizable value is typically the amount that would be received by selling an asset. Market value may be used to estimate realizable value when a market for an asset exists.

Paragraph (q) of the definition
Paragraph (q) refers to a person or company that has net assets of at least $25 million. "Net assets" under this paragraph is total assets minus total liabilities. The value attributed to assets should reasonably reflect their estimated fair value.

1.3 Fundamental concepts

This section describes the fundamental concepts that form the basis of the registration regime:

- requirement to register
- business trigger for trading and advising, and
- fitness for registration

Requirement to register
The requirement to register is found in securities legislation. Firms must register if they are:

- in the business of trading
- in the business of advising
- holding themselves out as being in the business of trading or advising
- acting as an underwriter, or
- acting as an investment fund manager

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.

There is no renewal requirement for registration, but fees must be paid every year to maintain registration.

Multiple categories

Registration in more than one category may be necessary. For example, an adviser that also manages an investment fund may have to register as a portfolio manager and an investment fund manager. An adviser that manages a portfolio and distributes units of an investment fund may have to register as a portfolio manager and as a dealer.

Registration exemptions
NI 31-103 provides exemptions from the registration requirement. Some exemptions do not need to be applied for if the conditions of the exemption are met. In other cases, on receipt of an application, the regulator has discretion to grant exemptions for specified dealers, advisers or investment fund managers, or activities carried out by them if registration is required but specific circumstances indicate that it is not otherwise necessary for investor protection or market integrity.

Business trigger for trading and advising
We refer to trading or advising in securities for a business purpose as the "business trigger" for registration.

We look at the type of activity and whether it is carried out for a business purpose to determine if an individual or firm must register. We consider the factors set out below, among others, to determine if the activity is for a business purpose. For the most part, these factors are from case law and regulatory decisions that have interpreted the business purpose test for securities matters.

Factors in determining business purpose
This section describes factors that we consider relevant in determining whether an individual or firm is trading or advising in securities for a business purpose and, therefore, subject to the dealer or adviser registration requirement.

This is not a complete list. We do not automatically assume that any one of these factors on its own will determine whether an individual or firm is in the business of trading or advising in securities.

(a) Engaging in activities similar to a registrant
We usually consider an individual or firm engaging in activities similar to those of a registrant to be trading or advising for a business purpose. Examples include promoting securities or stating in any way that the individual or firm will buy or sell securities. If an individual or firm sets up a business to carry out any of these activities, we may consider them to be trading or advising for a business purpose.

(b) Intermediating trades or acting as a market maker
In general, we consider intermediating a trade between a seller and a buyer of securities to be trading for a business purpose. This typically takes the form of the business commonly referred to as a broker. Making a market in securities is also generally considered to be trading for a business purpose.

(c) Directly or indirectly carrying on the activity with repetition, regularity or continuity
Frequent or regular transactions are a common indicator that an individual or firm may be engaged in trading or advising for a business purpose. The activity does not have to be their sole or even primary endeavour for them to be in the business.

We consider regularly trading or advising in any way that produces, or is intended to produce, profits to be for a business purpose. We also consider any other sources of income and how much time an individual or firm spends on all activities associated with the trading or advising.

(d) Being, or expecting to be, remunerated or compensated
Receiving, or expecting to receive, any form of compensation for carrying on the activity, including whether the compensation is transaction or value based, indicates a business purpose. It does not matter if the individual or firm actually receives compensation or in what form. Having the capacity or the ability to carry on the activity to produce profit is also a relevant factor.

(e) Directly or indirectly soliciting
Contacting anyone to solicit securities transactions or to offer advice may reflect a business purpose. Solicitation includes contacting someone by any means, including advertising that proposes buying or selling securities or participating in a securities transaction, or that offers services or advice for these purposes.

Business trigger examples
This section explains how the business trigger might apply to some common situations.

(a) Securities issuers
A securities issuer is an entity that issues or trades in its own securities. In general, securities issuers with an active non-securities business do not have to register as a dealer if they:

- do not hold themselves out as being in the business of trading in securities
- trade in securities infrequently
- are not, or do not expect to be, compensated for trading in securities
- do not act as intermediaries, and
- do not produce, or intend to produce, a profit from trading in securities

However, securities issuers may have to register as a dealer if they:

- frequently trade in securities
- employ or otherwise contract individuals to perform activities on their behalf that are similar to those performed by a registrant (other than underwriting in the normal course of a distribution or trading for their own account)
- solicit investors actively, or
- act as an intermediary by investing client money in securities

For example, an investment fund manager that carries out the activities described above may have to register as a dealer.

Securities issuers that are in the business of trading should consider whether they qualify for the exemption from the registration requirement for trades through a registered dealer in section 8.5 of NI 31-103.

In most cases, securities issuers are subject to the prospectus requirements in securities legislation. Regulators have the discretionary authority to require an underwriter for a prospectus distribution.

(b) Venture capital and private equity

This guidance does not apply to labour sponsored or venture capital funds as defined in National instrument 81-106 *Investment Fund Continuous Disclosure* (NI 81-106).

Venture capital and private equity investing are distinguished from other forms of investing by the role played by venture capital and private equity management companies (collectively, VCs). This type of investing includes a range of activities that may require registration.

VCs typically raise money under one of the prospectus exemptions in NI 45-106, including for trades to “accredited investors”. The investors typically agree that their money will remain invested for a period of time. The VC uses this money to invest in securities of companies that are not publicly traded. The VC usually becomes actively involved in the management of the company, often over several years.

Examples of active management in a company include the VC having:

- representation on the board of directors
- direct involvement in the appointment of managers
- a say in material management decisions

The VC looks to realize on the investment either through a public offering of the company’s securities, or a sale of the business. At this point, the investors’ money can be returned to them, along with any profit.

Investors rely on the VC’s expertise in selecting and managing the companies it invests in. In return, the VC receives a management fee or “carried interest” in the profits generated from these investments. They do not receive compensation for raising capital or trading in securities.

Applying the business trigger factors to the VC activities as described above, there would be no requirement for the VC to register as:

- a portfolio manager, if the advice provided in connection with the purchase and sale of companies is incidental to the VC’s active management of these companies, or
- a dealer, if both the raising of money from investors and the investing of that money in companies are occasional and uncompensated activities

If the VC is actively involved in the management of the companies it invests in, the investment portfolio would generally not be considered an investment fund. As result, the VC would not need to register as an investment fund manager.

The business trigger factors and investment fund manager analysis may apply differently if the VC engages in activities other than those described above.

(c) One-time activities

In general, we do not require registration for one-time trading or advising activities. This includes trading or advising that:

- is carried out by an individual or firm acting as a trustee, executor, administrator, personal or other legal representative, or
- relates to the sale of a business

(d) Incidental activities

If trading or advising activity is incidental to a firm’s primary business, we may not consider it to be for a business purpose.

For example, merger and acquisition specialists that advise the parties to a transaction between companies are not normally required to register as dealers or advisers in connection with that activity, even though the transaction may result in trades in securities and they will be compensated for the advice. The primary business purpose in this example is to carry out the transaction. Any advice on trades in the securities is incidental to that purpose and is limited to the parties to the transaction.

Another example is professionals, such as lawyers, accountants, engineers, geologists and teachers, who may provide advice on securities in the normal course of their professional activities. We do not consider them to be advising on securities for a business purpose. For the most part, any advice on securities will be incidental to their professional activities. This is because they:

- do not regularly advise on securities
- are not compensated separately for advising on securities
- do not solicit clients on the basis of their securities advice, and
- do not hold themselves out as being in the business of advising on securities

Registration trigger for investment fund managers
Investment fund managers are subject to a registration trigger. This means that if a firm carries on the activities of an investment fund manager, it must register. However, investment fund managers are not subject to the business trigger.

Fitness for registration
The regulator will only register an applicant if they appear to be fit for registration. Following registration, individuals and firms must maintain their fitness in order to remain registered. If the regulator determines that a registrant has become unfit for registration, the regulator may suspend or revoke the registration. See Part 6 of this Companion Policy for guidance on suspension and revocation of individual registration. See Part 10 of this Companion Policy for guidance on suspension and revocation of firm registration.

Terms and conditions
The regulator may impose terms and conditions on a registration at the time of registration or at any time after registration. Terms and conditions imposed at the time of registration are generally permanent, for example, in the case of a restricted dealer who is limited to specific activities. Terms and conditions imposed after registration are generally temporary. For example, if a registrant does not maintain the required capital, it may have to file monthly financial statements and capital calculations until the regulator's concerns are addressed.

Opportunity to be heard
Applicants and registrants have an opportunity to be heard by the regulator before their application for registration is denied. They also have an opportunity to be heard before the regulator imposes terms and conditions on their registration if they disagree with the terms and conditions.

Assessing fitness for registration - firms
We assess whether a firm is or remains fit for registration through the information it is required to provide on registration application forms and as a registrant, and through compliance reviews. Based on this information, we consider whether the firm is able to carry out its obligations under securities legislation. For example, registered firms must be financially viable. A firm that is insolvent or has a history of bankruptcy may not be fit for registration.

In addition, when determining whether a firm whose head office is outside Canada is, and remains, fit for registration, we will consider whether the firm maintains registration or regulatory organization membership in the foreign jurisdiction that is appropriate for the securities business it carries out there.

Assessing fitness for registration - individuals
We use three fundamental criteria to assess whether an individual is or remains fit for registration:

- proficiency
- integrity, and
- solvency

(a) Proficiency
Individual applicants must meet the applicable education, training and experience requirements prescribed by securities legislation and demonstrate knowledge of securities legislation and the products they recommend.

Registered individuals should continually update their knowledge and training to keep pace with new products, services and developments in the industry that are relevant to their business. See section 3.4 of this Companion Policy for more specific guidance on proficiency.

(b) Integrity
Registered individuals must conduct themselves with integrity and have an honest character. The regulator will assess the integrity of individuals through the information they are required to provide on registration application forms and as registrants,

and through compliance reviews. For example, applicants are required to disclose information about conflicts of interest, such as other employment or partnerships, service as a member of a board of directors, or relationships with affiliates, and about any regulatory or legal actions against them.

(c) Solvency

The regulator will assess the overall financial condition of an individual applicant or registrant. An individual that is insolvent or has a history of bankruptcy may not be fit for registration. Depending on the circumstances, the regulator may consider the individual's contingent liabilities. The regulator may take into account an individual's bankruptcy or insolvency when assessing their continuing fitness for registration.

Part 2 Categories of registration for individuals

2.1 Individual categories

Multiple individual categories

Individuals who carry on more than one activity requiring registration on behalf of a registered firm must:

- register in all applicable categories, and
- meet the proficiency requirements of each category

For example, an advising representative of a portfolio manager who is also the firm's CCO must register in the categories of advising representative and CCO. They must meet the proficiency requirements of both of these categories.

Multiple firms

We will not usually register an individual as a dealing, advising or associate advising representative for more than one registered firm even if the firms are affiliated. We will consider applications for individuals to act as a representative of more than one firm on a case-by-case basis. Before we approve an application, we must be satisfied that:

- there are valid business reasons for the individual to be registered with both firms
- the applicant's sponsoring firms have demonstrated that they have policies and procedures addressing any conflicts of interest that may arise as a result of the dual registration, and
- the sponsoring firms will be able to deal with these conflicts

We may consider other relevant factors.

Individual registered in a firm category

An individual can be registered in both a firm and individual category. For example, a sole proprietor who is registered in the firm category of portfolio manager must also be registered in the individual category of advising representative.

2.2 Client mobility exemption – individuals

The mobility exemption in section 2.2 of NI 31-103 allows registered individuals to continue dealing with and advising clients who move to another jurisdiction, without registering in that other jurisdiction. Section 8.30 *Client mobility exemption – firms* contains a similar exemption for registered firms.

The exemption becomes available when the client (not the registrant) moves to another jurisdiction. An individual may deal with up to five "eligible" clients in each other jurisdiction. Each of the client, their spouse and any children are an eligible client.

An individual may only rely on the exemption if:

- they and their sponsoring firm are registered in their principal jurisdiction
- they and their sponsoring firm only act as a dealer, underwriter or adviser in the other jurisdiction as permitted under their registration in their principal jurisdiction
- they comply with Part 13 *Dealing with clients – individuals and firms*
- they act fairly, honestly and in good faith in their dealings with the eligible client, and
- their sponsoring firm has disclosed to the eligible client that the individual and if applicable, their sponsoring firm, are exempt from registration in the other jurisdiction and are not subject to the requirements of securities legislation in that jurisdiction

As soon as possible after an individual first relies on this exemption, their sponsoring firm must complete and file Form 31-103F3 *Use of mobility exemption* (Form 31-103F3) with the other jurisdiction.

Part 3 Registration requirements – individuals

Division 1 General proficiency requirements

Individuals must pass exams – not courses – to meet the education requirements in Part 3. For example, an individual must pass the Canadian Securities Course Exam, but does not have to complete the Canadian Securities Course. Individuals are responsible for completing the necessary preparation to pass an exam and for proficiency in all areas covered by the exam.

3.3 Time limits on examination requirements

Under section 3.3 of NI 31-103, there is a time limit on the validity of exams prescribed in Part 3. Individuals must pass an exam within 36 months before they apply for registration. However, the time limit does not apply if the individual:

- was registered in the same category in Canada for a total of 12 months during the 36-month period, or
- gained relevant securities industry experience for a total of 12 months during the 36-month period

The 12 months of registration and relevant securities industry experience referred to in subsection 3.3(2) do not have to be consecutive, or with the same firm or organization. The individual must have been registered for a total of 12 months or obtained a total of 12 months of experience within the 36-month period before the date they apply for registration.

These time limits do not apply when individuals transfer to a new firm. This is because they do not have to apply for registration when they transfer. See Part 6 of this Companion Policy for guidance on individuals who transfer to a new firm.

Relevant securities industry experience
The securities industry experience under subsection 3.3(2)(b) should be relevant to the category applied for. It may include experience acquired:

- during employment at a registered dealer, a registered adviser or an investment fund manager
- in related investment fields, such as investment banking, securities trading on behalf of a financial institution, securities research, portfolio management, investment advisory services or supervision of those activities
- in legal, accounting or consulting practices related to the securities industry
- in other professional service fields that relate to the securities industry, or
- in a securities-related business in a foreign jurisdiction

Division 2 Education and experience requirements

See Appendix C for a chart that sets out the proficiency requirements for each individual category of registration.

Granting exemptions
The regulator may grant an exemption from any of the education and experience requirements in Division 2 if it is satisfied that an individual has qualifications or relevant experience that is equivalent to, or more appropriate in the circumstances than, the prescribed requirements.

Proficiency for representatives of investment dealers
IIROC sets the proficiency requirements for dealing representatives of its members.

Proficiency for representatives of restricted dealers and restricted portfolio managers
The regulator will decide on a case-by-case basis what education and experience are required for registration as:

- a dealing representative or CCO of a restricted dealer
- an advising representative or CCO of a restricted portfolio manager

The regulator will determine these requirements when it assesses the individual's fitness for registration.

3.4 Proficiency – initial and ongoing

Under section 3.4 of NI 31-103, registered individuals, including CCOs, must not perform an activity that requires registration unless they have the education, training and experience that a reasonable person would consider necessary to perform the activity competently. Registered firms should ensure that registered individuals acting on their behalf meet this requirement at all times.

For example, 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 under section 13.3. Similarly, registered individuals should have a thorough understanding of a product before they recommend it to a client.

3.11 Portfolio manager – advising representative
3.12 Portfolio manager – associate advising representative

The 12 months of relevant investment management experience referred to in section 3.11 of NI 31-103 and 24 months of relevant investment management experience referred to in section 3.12 do not have to be consecutive, or with the same firm or organization. The individual must obtain a total of this experience within the 36-month period before the date they apply for registration.

For individuals with a CFA charter, the regulator will decide on a case-by-case basis whether the experience they gained to earn the charter qualifies as relevant investment management experience.

Relevant investment management experience
Relevant investment management experience under sections 3.11 and 3.12 may vary according to the level of specialization of the individual. It may include:

- securities research and analysis experience, demonstrating an ability in, and understanding of, portfolio analysis or portfolio security selection, or
- management of investment portfolios on a discretionary basis, including investment decision making, rebalancing and evaluating performance

Advising representatives
Advising representatives may acquire relevant investment management experience during employment in a portfolio management capacity with a registered investment dealer or adviser firm.

Associate advising representatives
Relevant investment management experience for associate advising representatives may include working at:

- an unregistered portfolio manager of a Canadian financial institution
- an adviser that is registered in another jurisdiction of Canada, or
- an adviser in a foreign jurisdiction

Division 3 Membership in a self-regulatory organization

3.16 Exemptions from certain requirements for SRO-approved persons

Section 3.16 exempts registered individuals who are dealing representatives of IIROC or MFDA members from the requirements in NI 31-103 for suitability and disclosure when recommending the use of borrowed money. This is because IIROC and the MFDA have their own rules for these matters. In Québec, these requirements do not apply to dealing representatives of a mutual fund dealer who comply with the applicable Québec regulations.

This section also exempts registered individuals who are dealing representatives of IIROC from the know your client obligations in section 13.2.

Part 4 Restrictions on registered individuals

4.2 Associate advising representatives – pre-approval of advice

The associate advising representative category is primarily meant to be an apprentice category for individuals who intend to become an advising representative but who do not meet the education or experience requirements for that category when they apply for registration. It allows an individual to work at a registered adviser while completing the proficiency requirements for an advising representative. For example, a previously registered advising representative could work in an advising capacity while acquiring the relevant work experience required for an advising representative under section 3.11 of NI 31-103.

However, associate advising representatives are not required to subsequently register as a full advising representative. They can remain as an associate advising representative indefinitely. This category also accommodates, for example, individuals who provide specific advice to clients, but do not manage client portfolios without supervision.

As required by section 4.2, registered firms must designate an advising representative to approve the advice provided by an associate advising representative. The designated advising representative must approve the advice before the associate advising representative gives it to the client. The appropriate processes for approving the advice will depend on the circumstances, including the associate advising representative's level of experience.

Registered firms that have associate advising representatives must:

- document their policies and procedures for meeting the supervision and approval obligations as required under section 11.1
- implement controls as required under section 11.1
- maintain records as required under section 11.5, and
- notify the regulator of the names of the advising representative and the associate advising representative whose advice they are approving no later than the seventh day after the advising representative is designated

Part 5 Ultimate designated person and chief compliance officer

Sections 11.2 and 11.3 of NI 31-103 require registered firms to designate a UDP and a CCO. The UDP and CCO must be registered and perform the compliance functions set out in sections 5.1 and 5.2. While the UDP and CCO have specific compliance functions, they are not solely responsible for compliance – it is the responsibility of the firm as a whole.

The same person as UDP and CCO
The UDP and the CCO can be the same person if they meet the requirements for both registration categories. We prefer firms to separate these functions, but we recognize that it might not be practical for some registered firms.

UDP or CCO as advising or dealing representative
The UDP or CCO may also be registered in trading or advising categories. For example, a small registered firm might conclude that one individual can adequately function as UDP and CCO, while also carrying on advising and trading activities. We may have concerns about the ability of a UDP or CCO of a large firm to conduct these additional activities and carry out their UDP, CCO and advising responsibilities at the same time.

5.1 Responsibilities of the ultimate designated person

The UDP is responsible for promoting a culture of compliance and overseeing the effectiveness of the firm's compliance system. They do not have to be involved in the day-to-day management of the compliance group.

There are no specific education or experience requirements for the UDP. However, they are subject to the proficiency principle in section 3.4.

5.2 Responsibilities of the chief compliance officer

The CCO is an operating officer who is responsible for the monitoring and oversight of the firm's compliance system. This includes:

- establishing or updating policies and procedures for the firm's compliance system, and
- managing the firm's compliance monitoring and reporting according to the policies and procedures

At the firm's discretion, the CCO may also have authority to take supervisory or other action to resolve compliance issues.

The CCO must meet the proficiency requirements set out in Part 3. No other compliance staff have to be registered unless they are also advising or trading. The CCO may set the knowledge and skills necessary or desirable for individuals who report to them.

If a firm is registered in multiple categories, the CCO must meet the most stringent of the proficiency requirements of the firm's categories of registration.

Firms must designate one CCO. However, in large firms, the scale and kind of activities carried out by different operating divisions may warrant the designation of more than one CCO. We will consider applications, on a case-by-case basis, for different individuals to act as the CCO of a firm's operating divisions.

We will not usually register the same person as CCO of more than one firm unless the firms are affiliated, and the scale and kind of activities carried out make it reasonable for the same person to act as CCO of more than one firm. We will consider applications, on a case-by-case basis, for the CCO of one registered firm to act as the CCO of another registered firm.

Subsection 5.2(c) of NI 31-103 requires the CCO to report to the UDP any instances of non-compliance with securities legislation that:

- create a reasonable risk of harm to a client or to the market, or
- are part of a pattern of non-compliance

The CCO should report non-compliance to the UDP even if it has been corrected.

Subsection 5.2(d) requires the CCO to submit an annual report to the board of directors.

Part 6 Suspension and revocation of registration – individuals

The requirements for surrendering registration and additional requirements for suspending and revoking registration are found in the securities legislation of each jurisdiction. The guidance for Part 6 relates to requirements under both securities legislation and NI 31-103.

There is no renewal requirement for registration. A registered individual may carry on the activities for which they are registered until their registration is:

- suspended automatically under NI 31-103
- suspended by the regulator under certain circumstances, or
- surrendered by the individual

6.1 If individual ceases to have authority to act for firm

Under section 6.1 of NI 31-103, if a registered individual ceases to have authority to act on behalf of their sponsoring firm because their working relationship with the firm ends or changes, the individual's registration with the registered firm is suspended until reinstated or revoked under securities legislation. This applies whether the individual or the firm ends the relationship.

If a registered firm terminates its working relationship with a registered individual for any reason, the firm must complete and file a notice of termination on Form 33-109F1 *Notice of Termination of Registered Individuals and Permitted Individuals* (Form 33-109F1) no later than five days after the effective date of the individual's termination. This includes when an individual resigns, is dismissed or retires.

The firm must file additional information about the individual's termination prescribed in Part 5 of Form 33-109F1 if:

- the individual resigned (either voluntarily or at the firm's request)
- the individual was dismissed (whether or not for cause), or
- the firm indicates "other" as the reason for termination on Form 33-109F1

The firm must file this information no later than 30 days after the date of termination. The regulator uses this information to determine if there are any concerns about the individual's conduct that may be relevant to their ongoing fitness for registration. Under NI 33-109, the firm must provide this information to the individual on request.

Suspension
An individual whose registration is suspended must not carry on the activity they are registered for. The individual otherwise remains a registrant and is subject to the jurisdiction of the regulator. A suspension remains in effect until the regulator reinstates or revokes the individual's registration.

If an individual who is registered in more than one category is suspended in one of the categories, the regulator will consider whether to suspend the individual's registration in other categories or to impose terms and conditions, subject to an opportunity to be heard.

Automatic suspension
An individual's registration will automatically be suspended if:

- they cease to have working relationship with their sponsoring firm
- the registration of their sponsoring firm is suspended or revoked, or
- they cease to be an approved person of an SRO

An individual must have a sponsoring firm to be registered. If an individual leaves their sponsoring firm for any reason, their registration is automatically suspended. Automatic suspension is effective on the day that an individual no longer has authority to act on behalf of their sponsoring firm.

Individuals do not have an opportunity to be heard by the regulator in the case of any automatic suspension.

Suspension in the public interest
An individual's registration may be suspended if the regulator exercises its power under securities legislation and determines that it is no longer in the public interest for the individual to be registered. The regulator may do this if it has serious concerns about the ongoing fitness of the individual. For example, this may be the case if an individual is charged with a crime, in particular fraud or theft.

Reinstatement
"Reinstatement" means that a suspension on a registration has been lifted. Once reinstated, an individual may resume carrying on the activity they are registered for. If a suspended individual joins a new sponsoring firm, they will have to apply for reinstatement under the process set out in NI 33-109. In certain cases, the reinstatement or transfer to the new firm will be automatic.

Automatic transfers
Subject to certain conditions set out in NI 33-109, an individual's registration may be automatically reinstated if they:

- transfer directly from one sponsoring firm to another registered firm in the same jurisdiction
- join the new sponsoring firm within 90 days of leaving their former sponsoring firm
- 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* (Form 33-109F7)

This allows individuals to engage in activities requiring registration from their first day with the new sponsoring firm.

Individuals are not eligible for an automatic reinstatement if they:

- have new information to disclose regarding regulatory, criminal, civil or financial matters as described in Item 9 of Form 33-109F7, or
- as a result of allegations of criminal activity, breach of securities legislation or breach of SRO rules:
  - were dismissed by their former sponsoring firm, or
  - were asked by their former sponsoring firm to resign

In these cases, the individual must apply to have their registration reinstated under NI 33-109 using Form 33-109F4 *Registration of Individuals and Review of Permitted Individuals.*

6.2 If IIROC approval is revoked or suspended
6.3 If MFDA approval is revoked or suspended

Registered individuals acting on behalf of member firms of an SRO are required to be an approved person of the SRO.

If an SRO suspends or revokes its approval of an individual, the individual's registration in the category requiring SRO approval will be automatically suspended. This automatic suspension of individuals does not apply to mutual fund dealers registered only in Québec.

If an SRO suspends an individual for reasons that do not involve significant regulatory concerns and subsequently reinstates the individual's approval, the individual's registration will usually be reinstated by the regulator as soon as possible.

Revocation

6.6 Revocation of a suspended registration – individual

If an individual's registration has been suspended under Part 6 of NI 31-103 but not reinstated, it will be automatically revoked on the second anniversary of the suspension.

"Revocation" means that the regulator has terminated the individual's registration. An individual whose registration has been revoked must submit a new application if they want to be registered again.

Surrender
"Surrender" means an individual wants to terminate their registration in some, but not all, of the jurisdictions in which they are registered. An individual may apply to surrender their registration at any time by completing Form 33-109F2 *Change or Surrender of Individual Categories* (Form 33-109F2) and having their sponsoring firm file it.

An individual who is registered in one or more jurisdictions and wants to terminate their registration in all jurisdictions does not have to file Form 33-109F2. This is because their sponsoring firm is required to file Form 33-109F1.

Part 7 Categories of registration for firms

The categories of registration for firms have two main purposes:

- to specify the type of business that the firm may conduct, and
- to provide a framework for the requirements the registrant must meet

Firms registered in more than one category
A firm may be required to register in more than one category. For example, a portfolio manager that manages an investment fund must register both as a portfolio manager and as an investment fund manager.

Individual registered in a firm category
An individual can be registered in both a firm and individual category. For example, a sole proprietor who is registered in the firm category of portfolio manager must also be registered in the individual category of advising representative.

7.1 Dealer categories

Underwriting is a subset of dealing activity for specified categories. Investment dealers may underwrite any securities. Exempt market dealers may underwrite securities in limited circumstances.

Exempt market dealer
Under subsection 7.1(2)(d) of NI 31-103, exempt market dealers may only act as a dealer in the "exempt market". The permitted activities of an exempt market dealer are determined with reference to the prospectus exemptions in NI 45-106 and include trades to "accredited investors" and purchasers of at least $150,000 of a security and trades to anyone under the offering memorandum exemption.

Exempt market dealers can sell investment funds (whether or not they are prospectus-qualified) under these exemptions without registering as a mutual fund dealer or being a member of the MFDA.

Restricted dealer
The restricted dealer category in subsection 7.1(2)(e) permits specialized dealers that may not qualify under another dealer category to carry on a limited trading business. It is intended to be used only if there is a compelling case for the proposed trading to take place outside the other registration categories.

The regulator will impose terms and conditions that restrict the dealer's activities. The CSA will co-ordinate terms and conditions for restricted dealers.

7.2 Adviser categories

The registration requirement in section 7.2 of NI 31-103 applies to advisers who give "specific advice". Advice is specific when it is tailored to the needs and circumstances of a client or potential client. For example, an adviser who recommends a security to a client is giving specific advice.

Restricted portfolio manager
The restricted portfolio manager category in subsection 7.2(2)(b) permits individuals or firms to advise in specific securities, classes of securities or securities of a class of issuers.

The regulator will impose terms and conditions on a restricted portfolio manager's registration that limit the manager's activities to a specific area, for example, securities of oil and gas issuers.

7.3 Investment fund manager category

Investment fund managers direct the business, operations or affairs of an investment fund. They organize the fund and are responsible for its management and administration.

If an entity is uncertain about whether it must register as an investment fund manager, it should consider whether the fund is an "investment fund" for the purposes of securities legislation. See section 1.2 of the Companion Policy to NI 81-106 for guidance on the general nature of investment funds.

An investment fund manager may:

- advertise to the general public a fund it manages without being registered as an adviser, and
- promote the fund to registered dealers without being registered as a dealer

If an investment fund manager acts as portfolio manager for a fund it manages, it should consider whether it may have to be registered as an adviser. If it distributes units of the fund directly to investors, it should consider whether it may have to be registered as a dealer.

An investment fund manager may delegate or outsource certain functions to other service providers. However, the investment fund manager is responsible for these functions and must supervise the service provider. See Part 11 of this Companion Policy for more guidance on outsourcing.

Limited partnerships
Investment funds organized as limited partnerships of investment vehicles should consider which entity or entities may need to be registered as an investment fund manager. Multiple registrations may not be necessary if each general partner in the affiliated group enters into a contract with a single registered investment fund manager within the group. In this case, the investment fund manager may not be one of the general partners.

Part 8 Exemptions from the requirement to register

NI 31-103 provides several exemptions from the registration requirement. There may be additional exemptions in securities legislation. If a firm is exempt from registration, the individuals acting on its behalf are also exempt from registration.

Division 1 Exemptions from dealer and underwriter registration

We provide no specific guidance for the following exemptions because there is guidance on them in the Companion Policy to NI 45-106:

- 8.12 *Mortgages*
- 8.17 *Reinvestment plan*
- 8.20 *Exchange contract – Alberta, British Columbia, New Brunswick and Saskatchewan*

8.5 Trades through or to a registered dealer

This exemption is available when no intermediary is involved in a trade, for example, when an individual or firm trades their own securities directly with a registered dealer. An individual or firm will have to register, however, if they trade another party's securities with a registered dealer.

8.6 Adviser – non-prospectus qualified investment fund

Under the exemption in section 8.6 of NI 31-103, registered advisers do not have to register as a dealer for a trade in a security of a non-prospectus qualified investment fund if they:

- act as the fund's adviser and investment fund manager, and
- distribute units of the fund only into their clients' managed accounts

The exemption is also available to those who qualify for the international adviser exemption under section 8.26.

Registered advisers often create non-prospectus qualified investment funds as a way to efficiently invest their clients' money. In issuing units of those funds to clients, they are in the business of trading in securities.

Subsection 8.6(2) limits the availability of this exemption to legitimate fully managed accounts. We do not intend for the exemption to be used to distribute the adviser's own non-prospectus qualified investment funds on a retail basis.

Advisers relying on the exemption in section 8.6 should consider whether they may have to register as an investment fund manager.

8.19 Self-directed registered education savings plan

We consider the creation of a self-directed registered education savings plan, as defined in section 8.19 of NI 31-103, to be a trade in a security, whether or not the assets held in the plan are securities. This is because the definition of "security" in securities legislation of most jurisdictions includes "any document constituting evidence of an interest in a scholarship or educational plan or trust".

Section 8.19 provides an exemption from the dealer registration requirement for the trade when the plan is created but only under the conditions described in subsection 8.19(2).

Division 2 Exemptions from adviser registration

8.25 Advising generally

Section 8.25 of NI 31-103 contains an exemption from the requirement to register as an adviser if the advice is not tailored to the needs of the recipient.

In general, we would not consider advice about specific securities to be tailored to the needs of the recipient if it:

- is a general discussion of the merits and risks of the security
- is delivered through investment newsletters, articles in general circulation newspapers or magazines, websites, e-mail, Internet chat rooms, bulletin boards, television or radio, and
- does not claim to be tailored to the needs and circumstances of any recipient

This type of general advice can also be given at conferences. However, if a purpose of the conference is to solicit the audience and generate specific trades in specific securities, we may consider the advice to be tailored or we may consider the individual or firm giving the advice to be engaged in trading activity.

Under subsection 8.25(3), if an individual or firm relying on the exemption has a financial or other interest in the securities they recommend, they must disclose the interest to the recipient when they make the recommendation.

Division 3 Exemptions from investment fund manager registration

8.28 Capital accumulation plan exemption

Section 8.28 of NI 31-103 provides an exemption from the investment fund manager registration requirement to an individual or firm that administers a capital accumulation plan. If an investment fund manager is also required to register as a dealer or adviser, this exemption only applies to their activities as an investment fund manager.

Division 4 Mobility exemption – firms

8.30 Client mobility exemption – firms

The mobility exemption in section 8.30 of NI 31-103 allows registered firms to continue dealing with and advising clients who move to another jurisdiction, without registering in that other jurisdiction. Section 2.2 *Client mobility exemption – individuals* contains a similar exemption for registered individuals.

The exemption becomes available when the client (not the registrant) moves to another jurisdiction. A registered firm may deal with up to 10 "eligible" clients in each other jurisdiction. Each of the client, their spouse and any children are an eligible client.

A firm may only rely on the exemption if:

- it is registered in its principal jurisdiction
- it only acts as a dealer, underwriter or adviser in the other jurisdiction as permitted under its registration in its principal jurisdiction
- the individual acting on its behalf is eligible for the exemption in section 2.2
- it complies with Parts 13 *Dealing with clients-individuals and firms* and 14 *Handling client accounts-firms*, and
- it acts fairly, honestly and in good faith in its dealings with the eligible client

Firm's responsibilities for individuals relying on the exemption
In order for a registered individual to rely on the exemption in section 2.2, their sponsoring firm must disclose to the eligible client that the individual and if applicable, the firm, are exempt from registration in the other jurisdiction and are not subject to the requirements of securities legislation in that jurisdiction.

As soon as possible after an individual first relies on the exemption in section 2.2, their sponsoring firm must complete and file Form 31-103F3 in the other jurisdiction.

The registered firm must have appropriate policies and procedures for supervising individuals who rely on a mobility exemption. Registered firms must also keep appropriate records to demonstrate they are complying with the conditions of the mobility exemption.

Part 9 Membership in a self-regulatory organization

9.3 Exemptions from certain requirements for SRO members

Section 9.3 of NI 31-103 contains an exemption from certain requirements for investment dealers that are IIROC members and, except in Québec, for mutual fund dealers that are MFDA members. However, if an SRO member is registered in another category, this section does not exempt them from their obligations as a registrant in that category. For example, if a firm is registered as an investment fund manager and as an investment dealer with IIROC, section 9.3 does not exempt them from their obligations as an investment fund manager under NI 31-103.

Part 10 Suspension and revocation of registration – firms

The requirements for surrendering registration and additional requirements for suspending and revoking registration are found in the securities legislation of each jurisdiction. The guidance for Part 10 relates to requirements under both securities legislation and NI 31-103.

There is no renewal requirement for registration but firms must pay fees every year to maintain their registration and the registration of individuals acting on their behalf. A registered firm may carry on the activities for which it is registered until its registration is:

- suspended automatically under NI 31-103
- suspended by the regulator under certain circumstances, or
- surrendered by the firm

Division 1 When a firm's registration is suspended

Suspension

A firm whose registration has been suspended must not carry on the activity it is registered for. The firm otherwise remains a registrant and is subject to the jurisdiction of the regulator. A suspension remains in effect until the regulator reinstates or revokes the firm's registration.

If a firm that is registered in more than one category is suspended in one of the categories, the regulator will consider whether to suspend the firm's registration in other categories or to impose terms and conditions, subject to an opportunity to be heard.

Automatic suspension
A firm's registration will automatically be suspended if:

- it fails to pay its annual fees within 30 days of the due date
- it ceases to be a member of IIROC, or
- except in Québec, it ceases to be a member of the MFDA

Firms do not have an opportunity to be heard by the regulator in the case of any automatic suspension.

10.1 Failure to pay fees

Under section 10.1 of NI 31-103, a firm's registration will be automatically suspended if it has not paid its annual fees within 30 days of the due date.

10.2 If IIROC membership is revoked or suspended

Under section 10.2 of NI 31-103, if IIROC suspends or revokes a firm's membership, the firm's registration as an investment dealer is suspended until reinstated or revoked.

10.3 If MFDA membership is revoked or suspended

Under section 10.3 of NI 31-103, if the MFDA suspends or revokes a firm's membership, the firm's registration as a mutual fund dealer is suspended until reinstated or revoked. Section 10.3 does not apply in Québec.

Suspension in the public interest
A firm's registration may be suspended if the regulator exercises its power under securities legislation and determines that it is no longer in the public interest for the firm to be registered. The regulator may do this if it has serious concerns about the ongoing fitness of the firm or any of its registered individuals. For example, this may be the case if a firm or one or more of its registered or permitted individuals is charged with a crime, in particular fraud or theft.

Reinstatement
"Reinstatement" means that a suspension on a registration has been lifted. Once reinstated, a firm may resume carrying on the activity it is registered for.

Division 2 Revoking a firm's registration

Revocation

10.5 Revocation of a suspended registration – firm
10.6 Exception for firms involved in a hearing

Under sections 10.5 and 10.6 of NI 31-103, if a firm's registration has been suspended under Part 10 and has not been reinstated, it is revoked on the second anniversary of the suspension, except if a hearing concerning the suspended registrant has commenced. In this case the registration remains suspended.

"Revocation" means that the regulator has terminated the firm's registration. A firm whose registration has been revoked must submit a new application if it wants to be registered again.

Surrender
A firm may apply to surrender its registration in one or more categories at any time. There is no prescribed form for an application to surrender. A firm should file an application to surrender registration with its principal regulator. If Ontario is a non-principal jurisdiction, it should also file the application with the regulator in Ontario. See the Companion Policy to Multilateral Instrument 11-102 *Passport System* for more details on filing an application to surrender.

Before the regulator accepts a firm's application to surrender registration, the firm must provide the regulator with evidence that the firm's clients have been dealt with appropriately. This evidence does not have to be provided when a registered individual applies to surrender registration. This is because the sponsoring firm will continue to be responsible for meeting obligations to clients who may have been served by the individual.

The regulator does not have to accept a firm's application to surrender its registration. Instead, the regulator can act in the public interest by suspending, or imposing terms and conditions on, the firm's registration.

When considering a registered firm's application to surrender its registration, the regulator typically considers the firm's actions, the completeness of the application and the supporting documentation.

The firm's actions
The regulator may consider whether the firm:

- has stopped carrying on activity requiring registration
- proposes an effective date to stop carrying on activity requiring registration that is within six months of the date of the application to surrender, and
- has paid any outstanding fees and submitted any outstanding filings at the time of filing the application to surrender

Completeness of the application
Among other things, the regulator may look for:

- the firm's reasons for ceasing to carry on activity requiring registration
- satisfactory evidence that the firm has given all of its clients reasonable notice of its intention to stop carrying on activity requiring registration, including an explanation of how it will affect them in practical terms, and
- satisfactory evidence that the firm has given appropriate notice to the SRO, if applicable

Supporting documentation
The regulator may look for:

- evidence that the firm has resolved all outstanding client complaints, settled all litigation, satisfied all judgments or made reasonable arrangements to deal with and fund any payments relating to them, and any subsequent client complaints, settlements or liabilities
- confirmation that all money or securities owed to clients has been returned or transferred to another registrant, where possible, according to client instructions
- up-to-date audited financial statements with an auditor's comfort letter
- evidence that the firm has satisfied any SRO requirements for withdrawing membership, and
- an officer's or partner's certificate supporting these documents

Part 11 Internal controls and systems

General business practices – outsourcing
Registered firms are responsible and accountable for all functions that they outsource to a service provider. Firms should have a written, legally binding contract that includes the expectations of the parties to the outsourcing arrangement.

Registered firms should follow prudent business practices and conduct a due diligence analysis of prospective third-party service providers. This includes third-party service providers that are affiliates of the firm. Due diligence should include an assessment of the service provider's reputation, financial stability, relevant internal controls and ability to deliver the services.

Firms should also:

- ensure that third-party service providers have adequate safeguards for keeping information confidential and, where appropriate, disaster recovery capabilities
- conduct ongoing reviews of the quality of outsourced services
- develop and test a business continuity plan to minimize disruption to the firm's business and its clients if the third-party service provider does not deliver its services satisfactorily, and
- note that other legal requirements, such as privacy laws, may apply when entering into outsourcing arrangements

The regulator, the registered firm and the firm's auditors should have the same access to the work product of a third-party service provider as they would if the firm itself performed the activities. Firms should ensure this access is provided and include a provision requiring it in the contract with the service provider, if necessary.

Division 1 Compliance

11.1 Compliance system

General principles
Section 11.1 of NI 31-103 requires registered firms to establish, maintain and apply policies and procedures that establish a system of controls and supervision (a compliance system) that:

- provides assurance that the firm and individuals acting on its behalf comply with securities legislation, and
- manages the business risks in accordance with prudent business practices

Operating an effective compliance system is essential to a registered firm's continuing fitness for registration. It provides reasonable assurance that the firm is meeting, and will continue to meet, all requirements of applicable securities laws and SRO rules and is managing risk prudently. A compliance system should include internal controls and mechanisms that are reasonably likely to identify non-compliance at an early stage and allow the firm to correct non-compliant conduct in a timely manner.

Compliance is a firm-wide responsibility. Everyone in the firm should understand the standards of conduct for their role. This includes the board of directors, partners, management, employees and agents, whether or not they are registered. Having a UDP and CCO, and in larger firms, a compliance group and other supervisory staff, does not relieve anyone else in the firm of the obligation to report and act on compliance issues. A compliance system should identify those who will act as alternates in the absence of the UDP or CCO.

Elements of an effective compliance system
While policies and procedures are essential, they do not make an acceptable compliance system on their own. An effective compliance system also includes internal controls and supervision.

Internal controls
Internal controls are an important part of a firm's compliance system. They should mitigate risk and protect firm and client assets. They should be designed to assist firms in monitoring compliance with securities legislation and managing the risks that affect their business, including risks that may arise from:

- money laundering
- trading
- business interruption
- hedging strategies

Supervision
Supervision is an essential component of a firm's compliance system. It consists of day-to-day supervision and systemic monitoring.

(a) Day-to day supervision
Day-to-day supervision includes:

- identifying specific cases of non-compliance
- taking action to correct them, and
- minimizing the compliance risk in key areas of a firm's operations

Minimizing risk usually involves approving new account documents, monitoring and in some cases, approving transactions, approving marketing materials and preventing inappropriate use or disclosure of non-public information.

Anyone who supervises registered individuals has a responsibility on behalf of the firm to take all reasonable measures to ensure that each of these individuals:

- deals fairly, honestly and in good faith with their clients
- complies with securities legislation
- complies with the firm's policies and procedures, and
- maintains an appropriate level of proficiency

(b) Systemic monitoring
Systemic monitoring involves assessing, and advising and reporting on the effectiveness of the firm's compliance system. This includes ensuring that:

- the firm's day-to-day supervision is reasonably effective in identifying and promptly correcting compliance deficiencies
- policies and procedures are enforced and kept up to date, and
- everyone at the firm generally understands and complies with the policies and procedures, and with securities legislation

Specific elements
More specific elements of an effective compliance system include:

(a) Visible commitment
Senior management and the board of directors or partners should demonstrate a visible commitment to compliance.

(b) Sufficient resources and training
The firm should have sufficient resources to operate an effective compliance system. Qualified individuals (including anyone acting as an alternate during absences) should have the responsibility and authority to monitor the firm's compliance, identify any instances of non-compliance and take supervisory action to correct them.

The firm should provide training to ensure that everyone at the firm understands the standards of conduct and their role in the compliance system, including ongoing communication and training on changes in regulatory requirements or the firm's policies and procedures.

(c) Detailed policies and procedures
The firm should have detailed written policies and procedures that:

- identify the internal controls the firm will use to ensure compliance with legislation and manage risk
- set out the firm's standards of conduct for compliance with securities and other applicable legislation and the systems for monitoring and enforcing compliance with those standards
- clearly outline who is expected to do what, when and how
- are readily accessible by everyone who is expected to know and follow them
- are updated when regulatory requirements and the firm's business practices change, and
- take into consideration the firm's obligation under securities legislation to deal fairly, honestly and in good faith with its clients

(d) Detailed records
The firm should keep records of activities conducted to identify compliance deficiencies and the action taken to correct them.

Setting up a compliance system
It is up to each registered firm to determine the most appropriate compliance system for its operations. Registered firms should consider the size and scope of their operations, including products, types of clients or counterparties, risks and compensating controls, and any other relevant factors.

For example, a large registered firm with diverse operations may require a large team of compliance professionals with several divisional heads of compliance reporting to a CCO dedicated entirely to a compliance role.

All firms must have policies, procedures and systems to demonstrate compliance. However, some of the elements noted above may be unnecessary or impractical for smaller registered firms.

We encourage firms to meet or exceed industry best practices in complying with regulatory requirements.

11.2 Designating an ultimate designated person

Under subsection 11.2(1) of NI 31-103, registered firms must designate an individual to be the UDP. Firms should ensure that the individual understands and is able to perform the obligations of a UDP under section 5.1.

The UDP must be:

- the chief executive officer of the registered firm
- the sole proprietor of the registered firm
- an officer in charge of a division of the firm that carries on all of the activity that requires registration, or
- an individual acting in a similar capacity

If the UDP no longer meets any of the above conditions and the registered firm is unable to designate another UDP, the firm should promptly advise the regulator of the actions it is taking to designate an appropriate UDP.

11.3 Designating a chief compliance officer

Under subsection 11.3(1) of NI 31-103, registered firms must designate an individual to be the CCO. Firms should ensure that the individual understands and is able to perform the obligations of a CCO under section 5.2.

The CCO must meet the applicable proficiency requirements in Part 3 of NI 31-103 and be:

- an officer or partner of the registered firm, or
- the sole proprietor of the registered firm

If the CCO no longer meets any of the above conditions and the registered firm is unable to designate another CCO, the firm should promptly advise the regulator of the actions it is taking to designate an appropriate CCO.

Division 2 Books and records

Under securities legislation, the regulator may access, examine and take copies of a registered firm's records. The regulator may also conduct regular and unscheduled compliance reviews of registered firms.

11.5 General requirements for records

Under subsection 11.5(1) of NI 31-103, registered firms must maintain records to accurately record their business activities, financial affairs and client transactions, and demonstrate compliance with securities legislation.

The following discussion provides guidance for the various elements of the records described in subsection 11.5(2).

Financial affairs
The records required under subsections 11.5(2)(a), (b) and (c) are records firms must maintain to help ensure they are able to prepare and file financial information, determine their capital position, including the calculation of excess working capital, and generally demonstrate compliance with the capital and insurance requirements.

Client transactions
The records required under subsections 11.5(2)(g), (h), (i), (l) and (n) are records firms must maintain to accurately and fully document transactions entered into on behalf of a client. We expect firms to maintain notes of oral communications with clients, and all e-mail, regular mail, fax and other written communications with clients to the extent these communications could have an impact on the client's account or the client's relationship with the firm. However, we do not expect registered firms to save every voicemail or e-mail, or to record all telephone conversations with clients.

The records required under subsection 11.5(2)(g) should document buy and sell transactions, referrals, margin transactions and any other activities relating to a client's account. They include records of all actions leading to trade execution, settlement and clearance, such as trades on exchanges, alternative trading systems, over-the-counter markets, debt markets, and distributions and trades in the prospectus-exempt market.

Examples of these records are:

- trade confirmation statements
- summary information about account activity
- communications between a registrant and its client about particular transactions, and
- records of transactions resulting from securities a client holds, such as dividends or interest paid, or dividend reinvestment program activity

Subsection 11.5(2)(l) requires firms to maintain records that demonstrate compliance with the know your client obligations in section 13.2 and the suitability obligations in section 13.3. This includes records for unsuitable trades in subsection 13.3(2).

Client relationship
The records required under subsection 11.5(2)(k) and (m) should document information about a registered firm's relationship with its client and relationships that any representatives have with that client.

These records include:

- communication between the firm and its clients, such as disclosure provided to clients and agreements between the registrant and its clients
- account opening information
- change of status information provided by the client
- disclosure and other relationship information provided by the firm
- margin account agreements
- communications regarding a complaint made by the client
- actions taken by the firm regarding a complaint
- communications that do not relate to a particular transaction, and
- conflicts records

Each record required under subsection 11.5(2)(k) should clearly indicate the name of the accountholder and the account the record refers to. A record should include information only about the accounts of the same accountholder or group. For example, registrants should have separate records for an individual's personal accounts and for accounts of a legal entity that the individual owns or jointly holds with another party.

Where applicable, the financial details should note whether the information is for an individual or a family. This includes spousal income and net worth. The financial details for accounts of a legal entity should note whether the information refers to the entity or to the owner(s) of the entity.

If the registered firm permits clients to complete new account forms themselves, the forms should use language that is clear and avoids terminology that may be unfamiliar to unsophisticated clients.

Internal controls
The records required under subsection 11.5(2)(d), (e), (f), (j) and (o) are records firms must maintain to support the internal controls and supervision components of their compliance system.

11.6 Form, accessibility and retention of records

Third party access to records
Subsection 11.6(1)(b) of NI 31-103 requires registered firms to keep their records in a safe location. This includes ensuring that no one has unauthorized access to information, particularly confidential client information. Registered firms should be particularly vigilant if they maintain books and records in a location that may be accessible by a third party. In this case, the firm should have a confidentiality agreement with the third party.

Division 3 Certain business transactions

11.8 Tied selling

Section 11.8 of NI 31-103 prohibits an individual or firm from engaging in abusive sales practices such as selling a security on the condition that the client purchase another product or service from the registrant or one of its affiliates. These types of practices are known as “tied selling”. In our view, this section would be contravened if, for example, a financial institution agreed to lend money to a client only if the client acquired securities of mutual funds sponsored by the financial institution.

However, section 11.8 is not intended to prohibit relationship pricing or other beneficial selling arrangements similar to relationship pricing. Relationship pricing refers to the practice of industry participants offering financial incentives or advantages to certain clients.

11.9 Registrant acquiring a registered firm’s securities or assets

Under section 11.9 of NI 31-103, registrants must give the regulator notice if they propose to purchase securities or assets of a registered firm or the parent of a registered firm. For purposes of this section, a registered firm’s book of business would be a substantial part of the assets of the registered firm. This notice gives the regulator an opportunity to consider ownership issues that may affect a firm’s fitness for registration.

Subsection 11.9(4) does not apply in British Columbia. However, the regulator in British Columbia may exercise discretion under section 36 or 161 of the BC *Securities Act* (BCSA) to impose conditions, restrictions or requirements on the registrant’s registration or to suspend or revoke the registration if it decides that an acquisition would affect the registrant’s fitness for registration or be prejudicial to the public interest. In these circumstances, the registrant would be entitled to an opportunity to be heard, except if the regulator issues a temporary order under section 161 of the BCSA.

11.10 Registered firm whose securities are acquired

Under section 11.10 of NI 31-103, registered firms must notify the regulator if they know or have reason to believe that any individual or firm is about to purchase more than 10% of the voting securities of the firm or the firm’s parent. This notice gives the regulator an opportunity to consider ownership issues that may affect a firm’s fitness for registration.

We expect any individual or firm that buys assets of a registered firm and is not already a registrant will have to apply for registration. We will assess their fitness for registration when they apply.

Subsection 11.10(5) does not apply in British Columbia. However, the regulator in British Columbia may exercise discretion under section 36 or 161 of the BCSA to impose conditions, restrictions or requirements on the registrant’s registration or to suspend or revoke the registration if it decides that an acquisition would affect the registrant’s fitness for registration or be prejudicial to the public interest. In these circumstances, the registrant would be entitled to an opportunity to be heard, except if the regulator issues a temporary order under section 161 of the BCSA.

Part 12 Financial condition

Division 1 Working capital

12.1 Capital requirements

Section 12.1 of NI 31-103 requires registered firms to notify the regulator if their excess working capital is less than zero.

Registered firms should know their working capital position at all times. This may require a firm to calculate its working capital every day. The frequency of working capital calculations depends on many factors, including the size of the firm, the nature of its

business and the stability of the components of its working capital. For example, it may be sufficient for a sole proprietor firm with a dedicated and stable source of working capital to do the calculation on a monthly basis.

Working capital requirements are not cumulative
The working capital requirements for registered firms set out in section 12.1 are not cumulative. If a firm is registered in more than one category, it must meet the highest capital requirement of its categories of registration, except for those investment fund managers who are also registered as portfolio managers and meet the requirements of the exemption in section 8.6. These investment fund managers need only meet the lower capital requirement for portfolio managers.

If a registrant becomes insolvent or declares bankruptcy
The regulator will review the circumstances of a registrant's insolvency or bankruptcy on a case-by-case basis. If the regulator has concerns, it may impose terms and conditions on the registrant's registration, such as close supervision and delivering progress reports to the regulator, or it may suspend the registrant's registration.

Division 2 Insurance

Insurance coverage limits
Registrants must maintain bonding or insurance that provides for a "double aggregate limit" or a "full reinstatement of coverage" (also known as "no aggregate limit"). Most insurers offer aggregate limit policies that contain limits based on a single loss and on the number or value of losses that occur during the coverage period.

Double aggregate limit policies have a specified limit for each claim. The total amount that may be claimed during the coverage period is twice that limit. For example, if an adviser maintains a financial institution bond of $50,000 for each clause with a double aggregate limit, the adviser's coverage is $50,000 for any one claim and $100,000 for all claims during the coverage period.

Full reinstatement of coverage policies and no aggregate limit policies have a specified limit for each claim but no limit on the number of claims or losses during the coverage period. For example, if an adviser maintains a financial institution bond of $50,000 for each clause with a full reinstatement of coverage provision, the adviser's maximum coverage is $50,000 for any one claim, but there is no limit on the total amount that can be claimed under the bond during the coverage period.

12.4 Insurance – adviser

The insurance requirements for advisers depend in part on whether the adviser holds or has access to client assets.

An adviser will be considered to hold or have access to client assets if they do any of the following:

- hold client securities or cash for any period
- accept funds from clients, for example, a cheque made payable to the registrant
- accept client money from a custodian, for example, client money that is deposited in the registrant's bank or trust accounts before the registrant issues a cheque to the client
- have the ability to gain access to client assets
- have, in any capacity, legal ownership of, or access to, client funds or securities
- have the authority, such as under a power of attorney, to withdraw funds or securities from client accounts
- have authority to debit client accounts to pay bills other than investment management fees
- act as a trustee for clients, or
- act as fund manager or general partner for investment funds

12.6 Global bonding or insurance

Registered firms may be covered under a global insurance policy. Under this type of policy, the firm is insured under a parent company's policy that covers the parent and its subsidiaries or affiliates. Firms should ensure that the claims of other entities covered under a global insurance policy do not affect the limits or coverage applicable to the firm.

Division 4 Financial reporting

12.14 Delivering financial information – investment fund manager

NAV errors and adjustments
Section 12.14 of NI 31-103 requires investment fund managers to periodically deliver to the regulator, among other things, a description of any net asset value (NAV) adjustment. A NAV adjustment is necessary when there has been a material error and the NAV per unit does not accurately reflect the actual NAV per unit at the time of computation.

Some examples of the causes of NAV errors are:

- mispricing of a security

- corporate action recorded incorrectly
- incorrect numbers used for issued and outstanding units
- incorrect expenses and income used or accrued
- incorrect foreign exchange rates used in the valuation, and
- human error, such as inputting an incorrect value

We expect investment fund managers to have policies that clearly define what constitutes a material error that requires an adjustment, including threshold levels, and how to correct material errors. If an investment fund manager does not have a threshold in place, it may wish to consider the threshold in IFIC Bulletin Number 22 or adopt a more stringent policy.

Part 13 Dealing with clients – individuals and firms

Division 1 Know your client and suitability

13.2 Know your client

General principles
Registrants act as gatekeepers of the integrity of the capital markets. They should not, by act or omission, facilitate conduct that brings the market into disrepute. As part of their gatekeeper role, registrants are required to establish the identity of, and conduct due diligence on, their clients under the know your client (KYC) obligation in section 13.2 of NI 31-103. Complying with the KYC obligation can help ensure that trades are completed in accordance with securities laws.

KYC information forms the basis for determining whether trades in securities are suitable for investors. This helps protect the client, the registrant and the integrity of the capital markets. The KYC obligation requires registrants to take reasonable steps to obtain and periodically update information about their clients.

Verifying a client's reputation
Subsection 13.2(2)(a) requires registrants to make inquiries if they have cause for concern about a client's reputation. The registrant must make all reasonable inquiries necessary to resolve the concern. This includes making a reasonable effort to determine, for example, the nature of the client's business.

Identifying insiders
Under subsection 13.2(2)(b), a registrant must take reasonable steps to establish whether the client is an insider of a reporting issuer or any other issuer whose securities are publicly traded. We consider "reasonable steps" to include explaining to the client what an insider is and what it means for securities to be publicly traded.

For purposes of this paragraph, "reporting issuer" has the meaning given to it in securities legislation and "other issuer" means any issuer whose securities are traded in any public market. This includes domestic, foreign, exchange-listed and over-the-counter markets. This definition does not include issuers whose securities have been distributed through a private placement and are not freely tradeable.

Keeping KYC information current
Under subsection 13.2(4), registrants are required to make reasonable efforts to keep their clients' KYC information current.

We consider information to be current if it is sufficiently up-to-date to support a suitability determination. For example, a portfolio manager with discretionary authority should update its clients' KYC information frequently. A dealer that only occasionally recommends trades to a client should ensure that the client's KYC information is up-to-date at the time a proposed trade or recommendation is made.

13.3 Suitability

Subsection 13.3(1) of NI 31-103 requires registrants to take reasonable steps to ensure that a proposed trade is suitable for a client before making a recommendation or accepting instructions from the client.

To meet this suitability obligation, registrants should have in-depth knowledge of all products that they buy and sell for, or recommend to, their clients. This is often referred to as the "know your product" or KYP obligation. Registrants should know each product well enough to understand and explain to their clients the product's risks, key features, and initial and ongoing costs and fees. Having the registered firm's approval for representatives to sell a product does not mean that the product will be suitable for all clients. Individual registrants must still determine the suitability of each transaction for every client.

Registrants should also be aware of, and act in compliance with, the terms of any exemption being relied on for the trade or distribution of the product.

In all cases, we expect registrants to be able to demonstrate a process for making suitability determinations that are appropriate in the circumstances.

Suitability obligations cannot be delegated
Registrants may not:

- delegate their suitability obligations to anyone else, or
- satisfy the suitability obligation by simply disclosing the risks involved with a trade

Only permitted clients may waive their right to a suitability determination. Registrants must make a suitability determination for all other clients. If a client instructs a registrant to make a trade that is unsuitable, the registrant may not allow the trade to be completed until they warn the client as required under subsection 13.3(2).

KYC information for suitability depends on circumstances
The extent of KYC information a registrant needs to determine suitability of a trade will depend on the:

- client's circumstances
- type of security
- client's relationship to the registrant, and
- registrant's business model

In some cases, the registrant will need extensive KYC information, for example, if the registrant is a portfolio manager with discretionary authority. In these cases, the registrant should have a comprehensive understanding of the client's:

- investment needs and objectives, including the client's time horizon for their investments
- overall financial circumstances, including net worth, income, current investment holdings and employment status, and
- risk tolerance for various types of securities and investment portfolios, taking into account the client's investment knowledge

In other cases, the registrant may need less KYC information, for example, if the registrant only occasionally deals with a client who makes small investments relative to their overall financial position.

If the registrant recommends securities traded under the prospectus exemption for accredited investors in NI 45-106, the registrant should determine whether the client qualifies as an accredited investor.

If a client is opening more than one account, the registrant should indicate whether the client's investment objectives and risk tolerance apply to a particular account or to the client's whole portfolio of accounts.

Registered firm and financial institution clients
Under subsection 13.3(3), there is no obligation to make a suitability determination for a client that is a registered firm, a Canadian financial institution or a Schedule III bank.

Permitted clients
Under subsection 13.3(4), registrants do not have to make a suitability determination for a permitted client if:

- the permitted client has waived their right to suitability in writing, and
- the registrant does not act as an adviser for a managed account of the permitted client

A permitted client may waive their right to suitability for all trades under a blanket waiver.

SRO exemptions
SRO rules may also provide conditional exemptions from the suitability obligation, for example, for dealers who offer order execution only services.

Division 2 Conflicts of interest

13.4 Identifying and responding to conflicts of interest

Section 13.4 of NI 31-103 covers a broad range of conflicts of interest. It requires registered firms to take reasonable steps to identify existing material conflicts of interest and material conflicts that the firm reasonably expects to arise between the firm and a client. As part of identifying these conflicts, a firm should collect information from the individuals acting on its behalf regarding the conflicts they expect to arise with their clients.

We consider a conflict of interest to be any circumstance where the interests of different parties, such as the interests of a client and those of a registrant, are inconsistent or divergent.

Responding to conflicts interest
A registered firm's policies and procedures for managing conflicts should allow the firm and its staff to:

- identify conflicts of interest that should be avoided

- determine the level of risk that a conflict of interest raises, and
- respond appropriately to conflicts of interest

When responding to any conflict of interest, registrants should consider their standard of care for dealing with clients and apply consistent criteria to similar types of conflicts of interest.

In general, three methods are used to respond to conflicts of interest:

- avoidance
- control, and
- disclosure

If a registrant allows a serious conflict of interest to continue, there is a high risk of harm to clients or to the market. If the risk of harming a client or the integrity of the markets is too high, the conflict needs to be avoided. If a registered firm does not avoid a conflict of interest, it should take steps to control or disclose the conflict, or both. The firm should also consider what internal structures or policies and procedures it should use or have to reasonably respond to the conflict of interest.

Avoiding conflicts of interest
Registrants must avoid all conflicts of interest that are prohibited by law. If a conflict of interest is not prohibited by law, registrants should avoid the conflict if it is sufficiently contrary to the interests of a client that there can be no other reasonable response.

For example, some conflicts of interest are so contrary to another person's or company's interest that a registrant cannot use controls or disclosure to respond to them. In these cases, the registrant should avoid the conflict, stop providing the service or stop dealing with the client.

Controlling conflicts of interest
Registered firms should design their organizational structures, lines of reporting and physical locations to control conflicts of interest effectively. For example, the following situations would likely raise a conflict of interest:

- advisory staff reporting to marketing staff
- compliance or internal audit staff reporting to a business unit, and
- registered representatives and investment banking staff in the same physical location

Depending on the conflict of interest, registered firms may control the conflict by:

- assigning a different representative to provide a service to the particular client
- creating a group or committee to review, develop or approve responses
- monitoring trading activity, or
- using information barriers for certain internal communication

Disclosing conflicts of interest

(a) When disclosure is appropriate
Registered firms should ensure that their clients are adequately informed about any conflicts of interest that may affect the services the firm provides to them. This is in addition to any other methods the registered firm may use to manage the conflict.

(b) Timing of disclosure
Under subsection 13.4(3), if a reasonable investor would expect to be informed of a conflict, a registered firm must disclose the conflict in a timely manner. Registered firms and their representatives should disclose conflicts of interest to their clients before or at the time they recommend the transaction or provide the service that gives rise to the conflict. This is to give clients a reasonable amount of time to assess the conflict. For example, if a registered individual recommends a security that they own, they should disclose that to the client before or at the time of the recommendation.

(c) When disclosure is not appropriate
Disclosure may not be appropriate if a conflict of interest involves confidential or commercially sensitive information, or the information amounts to "inside information" under insider trading provisions in securities legislation.

In these situations, registered firms will need to assess whether there are other methods to adequately respond to the conflict of interest. If not, the firm may have to decline to provide the service to avoid the conflict of interest.

Registered firms should also have specific procedures for responding to conflicts of interest that involve inside information and for complying with insider trading provisions.

(d) How to disclose a conflict of interest

Registered firms should provide disclosure about material conflicts of interest to their clients if a reasonable investor would expect to be informed about them. When a registered firm provides this disclosure, it should:

- be prominent, specific, clear and meaningful to the client, and
- explain the conflict of interest and how it could affect the service the client is being offered

Registered firms should not:

- provide generic disclosure
- give partial disclosure that could mislead their clients, or
- obscure conflicts of interest in overly detailed disclosure

Examples of conflicts of interest
This section describes specific situations where a registrant could be in a conflict of interest and how to manage the conflict.

Relationships with related or connected issuers
When a registered firm trades in, or recommends securities of, a related or connected issuer, it should respond to the resulting conflict of interest by disclosing it to the client.

To provide disclosure about conflicts with related issuers, a registered firm may maintain a list of the related issuers for which it acts as a dealer or adviser. It may make the list available to clients by:

- posting the list on its website and keeping it updated
- providing the list to the client at the time of account opening, or
- explaining to the client at the time of account opening how to contact the firm to request a copy of the list free of charge

The list may include examples of the types of issuers that are related or connected and the nature of the firm's relationship with those issuers. For example, a firm could generally describe the nature of its relationship with an investment fund within a family of investment funds. This would mean that the firm may not have to update the list when a new fund is added to that fund family.

However, this type of disclosure may not meet the expectations of a reasonable investor when a specific conflict with a related or connected issuer arises, for example, when a registered individual recommends a trade in the securities of a related issuer. In these circumstances, a registered firm should provide the client with disclosure about the specific conflict with that issuer. This disclosure should include a description of the nature of the firm's relationship with the issuer.

Like all disclosure, information regarding a conflict with a related or connected issuer should be made available to clients before or at the time of the advice or trade giving rise to the conflict, so that clients have a reasonable amount of time to assess it. Registrants should use their judgment for the best way and time to inform clients about these conflicts. Previous disclosure may no longer be relevant to, or remembered by, a client, while disclosure of the same conflict more than once in a short time may be unnecessary and confusing.

Firms do not have to disclose to clients their relationship with a related or connected issuer that is a mutual fund and an affiliate of the firm if the names of the firm and the fund are similar enough that a reasonable person would conclude they are affiliated.

Relationships with other issuers
Firms should assess whether conflicts of interest may arise in relationships with issuers that do not fall within the definitions of related or connected issuers. Examples include non-corporate issuers such as a trust, partnership or special purpose vehicle or conduit issuing asset-backed commercial paper. This is especially important if a registered firm or its affiliates are involved in sponsoring, manufacturing, underwriting or distributing these securities.

The registered firm should disclose the relationship with these types of issuers if it may give rise to a conflict of interest that a reasonable client would expect to be informed about.

Competing interests of clients
If clients of a registered firm have competing interests, the firm should make reasonable efforts to be fair to all clients. Firms should have internal systems to evaluate the balance of these interests.

For example, a conflict of interest can arise between investment banking clients, who want the highest price, lowest interest rate or best terms in general for their issuances of securities, and retail clients who will buy the product. The firm should consider whether the product meets the needs of retail clients and is competitive with alternatives available in the market.

Individuals who serve on a board of directors
Conflicts of interest can arise when registered individuals serve on a board of directors. Examples include conflicting fiduciary duties owed to the company and to a registered firm or client, possible receipt of inside information and conflicting demands on the representative's time.

Registered firms should consider controlling the conflict by:

- requiring their representatives to seek permission from the firm to serve on the board of directors of an issuer, and
- having policies for board participation that identify the circumstances where the activity would not be in the best interests of the firm or its clients

The regulator will take into account the potential conflicts of interest that may arise when an individual serves on a board of directors when assessing that individual's continuing fitness for registration.

Individuals who have outside business activities
Conflicts can arise when registered individuals are involved in outside business activities, for example, because of the compensation they receive for these activities or because of the nature of the relationship between the individual and the outside entity. Before approving any of these activities, registered firms should consider potential conflicts of interest. If the firm cannot properly control a potential conflict of interest, it should not permit the outside activity.

The regulator will take into account the potential conflicts of interest that may arise as a result of an individual's outside business activities when assessing that individual's application for registration or continuing fitness for registration.

Compensation practices
Registered firms should consider whether any particular benefits, compensation or remuneration practices are inconsistent with their obligations to clients, especially if the firm relies heavily on commission-based remuneration. For example, if there is a complex product that carries a high commission, the firm may decide that it is not appropriate to offer that product.

13.5 Restrictions on certain managed account transactions

Section 13.5 of NI 31-103 prohibits a registered adviser from engaging in certain transactions in investment portfolios it manages for clients on a discretionary basis where the relationship may give rise to a conflict of interest or a perceived conflict of interest. The prohibited transactions include trades in securities in which a responsible person or an associate of a responsible person may have an interest or over which they may have influence or control.

Disclosure when responsible person is partner, director or officer of issuer
Subsection 13.5(2)(a) prohibits a registered adviser from purchasing securities of an issuer in which a responsible person or an associate of a responsible person is a partner, officer or director for a client's managed account. The prohibition applies unless the conflict is disclosed to the client and the client's written consent is obtained prior to the purchase.

If the client is an investment fund, the disclosure should be provided to, and the consent obtained from, each security holder of the investment fund in order for it to be meaningful. This disclosure may be provided in the offering memorandum that is provided to security holders. Like all disclosure about conflicts, it should be prominent, specific, clear and meaningful to the client. Consent may be obtained in the investment management agreement signed by security holders.

This approach may not be practical for prospectus qualified mutual funds. Investment fund managers and advisers of these funds should also consider the specific exemption from the prohibition under section 6.2 of National Instrument 81-107 *Independent Review Committee for Investment Funds* (NI 81-107) for prospectus-qualified investment funds.

Restrictions on trades with certain investment portfolios
Subsection 13.5(2)(b) prohibits certain trades, including, for example, those between the managed account of a client and the managed account of:

- a spouse of the adviser
- a trust for which a responsible person is the trustee, or
- a corporation in which a responsible person beneficially owns 10% or more of the voting securities

It also prohibits inter-fund trades. An inter-fund trade occurs when the adviser for an investment fund knowingly directs a trade in portfolio securities to another investment fund that it acts for or instructs the dealer to execute the trade with the other investment fund. Investment fund managers and their advisers should also consider the exemption from the prohibition that exists for inter-fund trades by public investment funds under section 6.1 of NI 81-107.

13.6 Disclosure when recommending related or connected securities

Section 13.6 of NI 31-103 restricts the ability of a registered firm to recommend a trade in a security of a related or connected issuer. The restrictions apply to recommendations made in any medium of communication. This includes recommendations in newsletters, articles in general circulation newspapers or magazines, websites, e-mail, Internet chat rooms, bulletin boards, television and radio.

It does not apply to oral recommendations made by registered individuals to their clients. These recommendations are subject to the requirements of section 13.4.

Division 3 Referral arrangements

Division 3 sets out the requirements for permitted referral arrangements. Regulators want to ensure that under any referral arrangements:

- individuals and firms that engage in registerable activities are appropriately registered
- the roles and responsibilities of the parties are clear, including responsibility for compliance with securities legislation, and
- clients are provided with disclosure about the referral arrangement to help them evaluate the referral arrangement and the extent of any conflicts of interest

Obligations to clients
A client who is referred to an individual or firm becomes the client of that individual or firm for the purposes of the services provided under the referral arrangement.

The registrant receiving a referral must meet all of its obligations as a registrant toward its referred clients, including know your client and suitability determinations.

Registrants involved in referral arrangements should manage any related conflicts of interest in accordance with the applicable provisions of Part 13 *Dealing with clients – individuals and firms*. For example, if the registered firm is not satisfied that the referral fee is reasonable, it should assess whether an unreasonably high fee may create a conflict that could motivate its representatives to act contrary to their duties toward their clients.

13.7 Definitions – referral arrangements

Section 13.7 of NI 31-103 defines “referral arrangement” in broad terms. The definition is not limited to referrals for providing investment products, financial services or services requiring registration. It also includes receiving a referral fee for providing a client name and contact information to an individual or firm. “Referral fee” is also broadly defined. It includes sharing or splitting any commission resulting from the purchase or sale of a security.

13.8 Permitted referral arrangements

Under section 13.8 of NI 31-103, parties to a referral arrangement are required to set out the terms of the arrangement in a written agreement. This is intended to ensure that each party’s roles and responsibilities are made clear.

We expect referral agreements to include:

- the roles and responsibilities of each party
- limitations on any party that is not a registrant (to ensure that it is not engaging in any activities requiring registration)
- the disclosure to be provided to referred clients, and
- who provides the disclosure to referred clients

If the individual or firm receiving the referral is a registrant, they are responsible for:

- carrying out all activity requiring registration that results from the referral arrangement, and
- communicating with referred clients

Registered firms are required to be parties to referral agreements entered into by their representatives. This ensures that they are aware of these arrangements so they can adequately supervise their representatives and monitor compliance with the agreements. This does not preclude the individual registrant from also being a party to the agreement.

A party to a referral arrangement may need to be registered depending on the activities that the party carries out. Registrants cannot use a referral arrangement to assign, contract out of or otherwise avoid their regulatory obligations.

13.9 Verifying the qualifications of the person or company receiving the referral

Section 13.9 of NI 31-103 requires the registrant making a referral to satisfy itself that the party receiving the referral is appropriately qualified to perform the services, and if applicable, is appropriately registered. The registrant is responsible for determining the steps that are appropriate in the particular circumstances. For example, this may include an assessment of the types of clients that the referred services would be appropriate for. This is consistent with the registrant’s obligation to act in the best interest of its clients.

13.10 Disclosing referral arrangements to clients

The disclosure of information to clients required under section 13.10 of NI 31-103 is intended to help clients make an informed decision about the referral arrangement and to assess any conflicts of interest. The disclosure should be provided to clients before or at the time the referred services are provided.

Registrants should take reasonable steps to ensure that clients understand:

- which entity they are dealing with
- what they can expect that entity to provide to them
- the registrant's key responsibilities to them
- the limitations of the registrant's registration category
- any relevant terms and conditions imposed on the registrant's registration
- the extent of the referrer's financial interest in the referral arrangement, and
- the nature of any potential or actual conflict of interest that may arise from the referral arrangement

Division 5 Complaints

Registered firms in Québec comply with Division 5 if they comply with sections 168.1.1 to 168.1.3 of the Québec *Securities Act*, which has provided a substantially similar regime since 2002.

The guidance in Division 5 applies to firms registered in any jurisdiction, including Québec.

13.15 Handling complaints

Section 13.15 of NI 31-103 requires registered firms to document complaints, and to effectively and fairly respond to them. Registered firms must consider all complaints, not just those relating to possible violations of securities legislation.

An effective complaint system deals with all formal and informal complaints or disputes internally, or refers them to the appropriate external person or process in a timely and fair manner.

13.16 Dispute resolution service

If a registered firm receives a complaint about any of its trading or advising activities, it must ensure that the complainant is aware of the dispute resolution or mediation services that are available to them and that the firm will pay for the services. Registered firms should know all applicable mechanisms and processes for dealing with different types of complaints, including those prescribed by the applicable SRO.

Québec registrants
In Québec, registrants must inform each complainant, in writing and without delay, that if the complainant is dissatisfied with how the complaint is handled or with the outcome, they may request the registrant to forward a copy of the complaint file to the Autorité des marchés financiers. The registrant must forward a copy of the complaint file to the Autorité des marchés financiers, which will examine the complaint. The Autorité des marchés financiers may act as a mediator if it considers it appropriate to do so and the parties agree.

Registrants who do business in other sectors
Some registrants are also registered or licensed to do business in other sectors, such as insurance. These registrants should inform their clients of the complaint mechanisms for each sector in which they do business and how to use them.

Part 14 Handling client accounts – firms

Division 2 Disclosure to clients

Registrants should ensure that clients understand who they are dealing with. They should carry on all registerable activities in their full legal or registered trade name. Contracts, confirmation and account statements, among other documents, should contain the registrant's full legal name.

14.2 Relationship disclosure information

Content of relationship disclosure information
There is no prescribed form for the relationship disclosure information required under section 14.2 of NI 31-103. A registered firm may provide this information in a single document or in separate documents, which together give the client the prescribed information.

Disclosure of costs

Under subsection 14.2(2)(g), registered firms must provide clients with a description of the costs they will pay in making, holding and selling investments. We expect this description to include all costs a client may pay during the course of holding a particular investment. For example, for a mutual fund, the description should briefly explain each of the following and how they may affect the investment:

- the management expense ratio
- the sales charge options available to the client
- the trailing commission
- any short-term trading fees
- any switch or change fees

Permitted clients
Under subsection 14.2(6), registrants do not have to provide relationship disclosure information to permitted clients if:

- the permitted client has waived the requirements in writing, and
- the registrant does not act as an adviser for a managed account of the permitted client

Promoting client participation
Registered firms should help their clients understand the registrant-client relationship. They should encourage clients to actively participate in the relationship and provide them with clear, relevant and timely information and communications.

In particular, registered firms should encourage clients to:

- **Keep the firm up to date.** Clients should provide full and accurate information to the firm and the registered individuals acting for the firm. Clients should promptly inform the firm of any change to information that could reasonably result in a change to the types of investments appropriate for them, such as a change to their income, investment objectives, risk tolerance, time horizon or net worth.

- **Be informed.** Clients should understand the potential risks and returns on investments. They should carefully review sales literature provided by the firm. Where appropriate, clients should consult professionals, such as a lawyer or an accountant, for legal or tax advice.

- **Ask questions.** Clients should ask questions and request information from the firm to resolve questions about their account, transactions or investments, or their relationship with the firm or a registered individual acting for the firm.

- **Stay on top of their investments.** Clients should pay for securities purchases by the settlement date. They should review all account documentation provided by the firm and regularly review portfolio holdings and performance.

14.4 When the firm has a relationship with a financial institution

As part of their duty to clients, registrants who have a relationship with a financial institution should ensure that their clients understand which legal entity they are dealing with. In particular, clients may be confused if more than one financial services firm is carrying on business in the same location. Registrants may differentiate themselves through various methods, including signage and disclosure.

Division 3 Client assets

14.6 Holding client assets in trust

Section 14.6 of NI 31-103 requires a registered firm to segregate client assets and hold them in trust. We consider it prudent for registrants who are not members of an SRO to hold client assets in client name only. This is because the capital requirements for non-SRO members are not designed to reflect the added risk of holding client assets in nominee name.

Division 4 Client accounts

14.10 Allocating investment opportunities fairly

If the adviser allocates investment opportunities among its clients, the firm's fairness policy should, at a minimum, indicate the method used to allocate the following:

- price and commission among client orders when trades are bunched or blocked
- block trades and initial public offerings among client accounts
- block trades and initial public offerings among client orders that are partially filled, such as on a pro-rata basis

The fairness policy should also address any other situation where investment opportunities must be allocated.

Each trade should be reported in the currency in which it was executed. If a trade is executed in a foreign currency through a Canadian account, the exchange rate should be reported to the client.

14.14 Client statements

Section 14.14 of NI 31-103 requires registered dealers and advisers to deliver statements to clients at least once every three months. There is no prescribed form for these statements but they must contain the information in subsections 14.14(4) and (5).

We expect all dealers and advisers to provide client statements. For example, an exempt market dealer should provide a statement that contains the information prescribed for all transactions the exempt market dealer has entered into or arranged on a client's behalf.

Appendix A - Contact information

Jurisdiction	E-mail	Fax	Address
Alberta	registration@asc.ca	(403) 297-4113	Alberta Securities Commission, 4th Floor, 300 - 5th Avenue S.W. Calgary, AB T2P 3C4 Attention: Registration
British Columbia	registration@bcsc.bc.ca	(604) 899-6506	British Columbia Securities Commission P.O. Box 10142, Pacific Centre 701 West Georgia Street Vancouver, BC V7Y 1L2 Attention: Registration
Manitoba	registrationmsc@gov.mb.ca	(204) 945-0330	The Manitoba Securities Commission 500-400 St. Mary Avenue Winnipeg, MB R3C 4K5 Attention: Registrations
New Brunswick	nrs@nbsc-cvmnb.ca	(506) 658-3059	New Brunswick Securities Commission Suite 300, 85 Charlotte Street Saint John, NB E2L 2J2 Attention: Registration Officer
Newfoundland & Labrador	scon@gov.nl.ca	(709) 729-6187	Financial Services Regulation Division Department of Government Services Government of Newfoundland and Labrador P.O. Box 8700, 2nd Floor, West Block Confederation Building St. John's, NL A1B 4J6 Attention: Registration Section
Northwest Territories	SecuritiesRegistry@gov.nt.ca	(867) 873-0243	Government of the Northwest Territories P.O. Box 1320 Yellowknife, NWT X1A 2L9 Attention: Deputy Superintendent of Securities
Nova Scotia	nrs@gov.ns.ca	(902) 424-4625	Nova Scotia Securities Commission 2nd Floor, Joseph Howe Building 1690 Hollis Street P.O. Box 458 Halifax, NS B3J 2P8 Attention: Deputy Director, Capital Markets
Nunavut	CorporateRegistrations@gov.nu.ca	(867) 975-6590 (Faxing to NU is unreliable. The preferred method is e-mail.)	Legal Registries Division Department of Justice Government of Nunavut P.O. Box 1000 Station 570 Iqaluit, NU X0A 0H0 Attention: Deputy Registrar
Ontario	registration@osc.gov.on.ca	(416) 593-8283	Ontario Securities Commission Suite 1903, Box 55 20 Queen Street West Toronto, ON M5H 3S8 Attention: Registrant Regulation
Prince Edward Island	ccis@gov.pe.ca	(902) 368-6288	Consumer and Corporate Services Division, Office of the Attorney General P.O. Box 2000, 95 Rochford Street Charlottetown, PE C1A 7N8 Attention: Superintendent of Securities
Québec	inscription@lautorite.qc.ca	(514) 873-3090	Autorité des marchés financiers Service de l'encadrement des intermédiaires 800 square Victoria, 22e étage C.P 246, Tour de la Bourse Montréal (Québec) H4Z 1G3
Saskatchewan	registrationsfsc@gov.sk.ca	(306) 787-5899	Saskatchewan Financial Services Commission Suite 601

Jurisdiction	E-mail	Fax	Address
			1919 Saskatchewan Drive Regina, SK S4P 4H2 Attention: Registration
Yukon	corporateaffairs@gov.yk.ca	(867) 393-6251	Department of Community Services Yukon Yukon Securities Office P.O. Box 2703 C-6 Whitehorse, YT Y1A 2C6 Attention: Superintendent of Securities

Appendix B - Terms not defined in NI 31-103 or this Companion Policy

Terms defined in National Instrument 14-101 *Definitions*:

- adviser registration requirement
- Canadian securities regulatory authority
- dealer registration requirement
- foreign jurisdiction
- jurisdiction or jurisdiction of Canada
- local jurisdiction
- investment fund manager registration requirement
- prospectus requirement
- registration requirement
- regulator
- securities directions
- securities legislation
- securities regulatory authority
- SRO
- underwriter registration requirement

Terms defined in National Instrument 45-106 *Prospectus and Registration Exemptions:*

- accredited investor
- eligibility adviser
- financial assets

Terms defined in National Instrument 81-102 *Mutual Funds:*

- money market fund

Terms defined in the Securities Act of most jurisdictions:

- adviser
- associate
- company
- control person
- dealer
- director
- distribution
- exchange contract (BC, AB, SK and NB only)
- insider
- individual
- investment fund
- investment fund manager
- issuer
- mutual fund
- officer
- person
- promoter
- records
- registrant
- reporting issuer
- security
- trade
- underwriter

Appendix C - Proficiency requirements for individuals acting on behalf of a registered firm

The tables in this Appendix set out the education and experience requirements, by firm registration category, for individuals who are applying for registration under securities legislation.

An individual must not perform an activity that requires registration unless the individual has the education, training and experience that a reasonable person would consider necessary to perform the activity competently.

Acronyms used in the tables

BMP	Branch Manager Proficiency Exam
CA	Chartered Accountant
CCO	Chief Compliance Officer
CFA	CFA Charter
CGA	Certified General Accountant
CMA	Certified Management Accountant
CIF	Canadian Investment Funds Exam
CIM	Canadian Investment Manager designation
CSC	Canadian Securities Course Exam
EMP	Exempt Market Products Exam
IFIC	Investment Funds in Canada Course Exam
MFDC	Mutual Funds Dealer Compliance Exam
PDO	Officers', Partners' and Directors' Exam/Partners, Directors and Senior Officers Course Exam
SRP	Sales Representative Proficiency Exam

<table>
<tr><th colspan="3">Investment dealer</th></tr>
<tr><th colspan="2">Dealing representative</th><th>CCO</th></tr>
<tr><td colspan="2">Proficiency requirements set by IIROC</td><td>Proficiency requirements set by IIROC</td></tr>
<tr><th colspan="3">Mutual fund dealer</th></tr>
<tr><th colspan="2">Dealing representative</th><th>CCO</th></tr>
<tr><td colspan="2">One of these four options:

1. CIF
2. CSC
3. IFIC
4. Advising representative requirements – portfolio manager</td><td>One of these two options:

1. CIF, CSC or IFIC; and PDO or MFDC
2. CCO requirements – portfolio manager</td></tr>
<tr><th colspan="3">Exempt market dealer</th></tr>
<tr><th colspan="2">Dealing representative</th><th>CCO</th></tr>
<tr><td colspan="2">One of these three options:

1. CSC
2. EMP
3. Advising representative requirements – portfolio manager</td><td>One of these three options:

1. PDO and CSC
2. PDO and EMP
3. CCO requirements – portfolio manager</td></tr>
<tr><th colspan="3">Scholarship plan dealer</th></tr>
<tr><th colspan="2">Dealing representative</th><th>CCO</th></tr>
<tr><td colspan="2">SRP</td><td>SRP, BMP and PDO</td></tr>
<tr><th colspan="3">Restricted dealer</th></tr>
<tr><th colspan="2">Dealing representative</th><th>CCO</th></tr>
<tr><td colspan="2">Regulator to determine on a case-by-case basis</td><td>Regulator to determine on a case-by-case basis</td></tr>
<tr><th colspan="3">Portfolio manager</th></tr>
<tr><th>Advising representative</th><th>Associate advising representative</th><th>CCO</th></tr>
<tr><td>One of these two options:

1. CFA and 12 months of relevant investment management experience in the 36-month period before applying for registration

2. CIM and 48 months of relevant investment management experience (12 months gained in the 36-month period for applying for registration)</td><td>One of these two options:

1. Level 1 of the CFA and 24 months of relevant investment management experience

2. CIM and 24 months of relevant investment management experience</td><td>One of these three options:

1. CSC, PDO, and CFA or a professional designation as a lawyer, CA, CGA, CMA, notary in Quebec or the equivalent in a foreign jurisdiction, and:
• 36 months of relevant securities experience working at an investment dealer, registered adviser or investment fund manager, or
• 36 months providing professional services in the securities industry and 12 months working at a registered dealer, registered adviser or investment fund manager, for a total of 48 months

2. CSC, PDO and five years working at:
• an investment dealer or a registered adviser (including 36</td></tr>
</table>

		months in a compliance capacity), or • a Canadian financial institution in a compliance capacity relating to portfolio management and 12 months at a registered dealer or registered adviser, for a total of six years 3. PDO and advising representative requirements – portfolio manager
Restricted portfolio manager		
Advising representative	**Associate advising representative**	**CCO**
Regulator to determine on case-by-case basis	Regulator to determine on case-by-case basis	Regulator to determine on case-by-case basis
Investment fund manager		
CCO		
One of these three options: 1. CSC, PDO, and CFA or a professional designation as a lawyer, CA, CGA, CMA, notary in Quebec or the equivalent in a foreign jurisdiction, and: • 36 months of relevant securities experience working at a registered dealer, registered adviser or investment fund manager, or • 36 months providing professional services in the securities industry and 12 months working in a relevant capacity at an investment fund manager, for a total of 48 months 2. CIF, CSC or IFIC; PDO and five years of relevant securities experience working at a registered dealer, registered adviser or an investment fund manager (including 36 months in a compliance capacity) 3. CCO requirements for portfolio manager		

Appendix G

Consequential changes to national instruments, multilateral instruments and companion policies

Substance and purpose of consequential changes to national instruments, multilateral instruments and companion policies

The amendment instruments provide for changes that mostly reflect new terminology used in, and the relocation of subject matter to, the Rule. The revocation instruments provide for the elimination of instruments and policies on the basis that the subject matter of the instrument or policy is now addressed in the Rule. 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 set out in the Schedule to this Appendix.

Summary of amendments to national instruments, multilateral instruments and companion policies

National Instrument 14-101 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.

National Instrument 24-101 Institutional Trade Matching and Settlement and Companion Policy 24-101CP
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).

National Instrument 33-105 Underwriting Conflicts and Companion Policy 33-105CP Underwriting conflicts
The term "registrant", which is re-termed "specified firm registrant", has been revised so that it does not refer to persons or companies registered, or required to be registered, in the new category of "registered investment fund manager".

Multilateral Policy 34-202 Registrants Acting as Corporate Directors
Sections 1.3 and 1.4 are revised to refer to agency relationships. Section 1.6 is also repealed.

National Instrument 81-102 Mutual Funds
The amendments to this instrument update relevant cross-references.

National Instrument 81-107 Independent Review Committee for Investment Funds
The amendments to this instrument update relevant section references.

Revocation or rescission of national instruments, multilateral instruments and companion policies

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

- Multilateral Instrument 11-101 *Principal Regulator System*
- Companion Policy 11-101CP *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*

Schedule to Appendix G
Consequential Changes to National Instruments, Multilateral Instruments and Companion Policies

AMENDING AND REVOKING OR RESCINDING INSTRUMENTS

Amendments to national instruments, multilateral instruments and companion policies

Amendments to National Instrument 14-101 *Definitions*

1. National Instrument 14-101 Definitions is amended by this Instrument.

2. Section 1.1(3) is amended

a. by repealing the definition of "dealer registration requirement***" and substituting the following:***

"dealer registration requirement" means:

(a) in every jurisdiction except British Columbia, Manitoba and New Brunswick, the requirement in securities legislation that prohibits a person or company from acting as a dealer unless that person or company is registered in the appropriate category of registration under securities legislation, and

(b) in British Columbia, Manitoba and New Brunswick, the requirement in securities legislation that prohibits a person or company from trading in a security unless that person or company is registered in the appropriate category of registration under securities legislation;**,**

b. by adding the following after the definition of "insider reporting requirement***":***

"investment fund manager registration requirement" means the requirement in securities legislation that prohibits a person or company from acting as an investment fund manager unless the person or company is registered in the appropriate category of registration under securities legislation;**,**

c. by repealing the definition of "person or company***" and substituting the following:***

"person or company", for the purpose of a national instrument or multilateral instrument, means,

(a) in British Columbia, a "person" as defined in section 1(1) of the *Securities Act* (British Columbia);

(b) in New Brunswick, a "person" as defined in section 1(1) of the *Securities Act* (New Brunswick);

(c) in the Northwest Territories, a "person" as defined in section 1 of the *Securities Act* (Northwest Territories);

(d) in Prince Edward Island, a "person" as defined in section 1 of the *Securities Act* (Prince Edward Island);

(e) in Québec, a "person" as defined in section 5.1 of the *Securities Act* (Québec); and

(f) in Yukon Territory, a "person" as defined in section 1 of the *Securities Act* (Yukon territory)***., and***

d. by repealing the definition of "registration requirement***" and substituting the following:***

"registration requirement" means all of the following:

(a) the adviser registration requirement,

(b) the dealer registration requirement,

(c) the investment fund manager registration requirement, and

(d) the underwriter registration requirement; **.**

3. Appendix B is amended by replacing the paragraph opposite Québec with the following:

Securities Act, An Act respecting the Autorité des marchés financiers (R.S.Q., c. A-33.2), Derivatives Act (S.Q. 2008, c. 24), the regulations under those Acts, and the blanket rulings and orders issued by the securities regulatory authority.

4. Appendix C is amended by replacing the paragraph opposite Northwest Territories with the following:

Superintendent of Securities, Northwest Territories

5. Appendix D is amended by replacing the paragraph opposite Northwest

Territories with the following:

Superintendent, as defined under section 1 of the *Securities Act* (Northwest Territories).

6. This Instrument comes into force on the day National Instrument 31-103 Registration Requirements and Exemptions comes into force.

Amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement*

1. National Instrument 24-101 Institutional Trade Matching and Settlement is amended by this Instrument.

2. Section 1.1. is amended by adding the following after the definition of "matching service utility***":***

"registered firm" means a person or company registered under securities legislation as a dealer or adviser.

3. The term "registrant***" is struck out wherever it occurs and is replaced by "***registered firm***".***

4. This Instrument comes into force on the day National Instrument 31-103 Registration Requirements and Exemptions comes into force.

Amendments to Companion Policy 24-101 CP *Institutional Trade Matching and Settlement*

1. Companion Policy 24-101CP Institutional Trade Matching and Settlement is amended by this Instrument.

2. The term "registrant***" is struck out wherever it occurs and is replaced by "***registered firm***".***

3. This Instrument comes into force on the day National Instrument 31-103 Registration Requirements and Exemptions comes into force.

Amendments to National Instrument 33-105 *Underwriting Conflicts*

1. National Instrument 33-105 Underwriting Conflicts is amended by this Instrument.

2. Section 1.1 is amended

a. in the definition of "connected issuer***" by striking out "***registrant***" wherever it occurs and substituting "***specified firm registrant***",***

b. in the definition of "influential securityholder***" by striking out "***registrant***" and substituting "***specified firm registrant***",***

c. in the definition of "professional group***" by striking out "***registrant***" wherever it occurs and substituting "***specified firm registrant***",***

d. by repealing the definition of "registrant***",***

e. in the definition of "related issuer***" by striking out "***; and***" and substituting "***;***",***

f. in the definition of "special warrant***" by striking out "***distribution of the other security***" and substituting "***distribution of the other security; and***", and***

g. by adding the following after the definition of "special warrant***":***

"specified firm registrant**"** means a person or company registered, or required to be registered, under securities legislation as a registered dealer, registered adviser or registered investment fund manager. **.**

3. In the following provisions, the term "registrant***" is struck out wherever it occurs and "***specified firm registrant***" is substituted:***

a. section 1.2,

b. section 2.1, and

c. section 3.1.

4. Appendix C is amended by striking out "registrant***" wherever it occurs and substituting "***specified firm registrant***".***

5. This Instrument comes into force on the day National Instrument 31-103 Registration Requirements and Exemptions comes into force.

Amendments to Companion Policy 33-105CP *Underwriting Conflicts*

1. Companion Policy 33-105CP Underwriting Conflicts is amended by this Instrument.

2. In the following provisions of the Companion Policy "registrant***" is struck out wherever it occurs and "***specified firm registrant" ***is substituted:***

a. section 2.1,

b. section 2.2,

c. section 2.4,

d. section 4.1,

e. section 4.2,

f. section 4.3,

g. section 5.1, and

h. section 6.1.

3. Appendix A-1 is amended by striking out "registrant***" wherever it occurs and substituting "***specified firm registrant***".***

4. Appendix A-2 is amended by striking out "registrant***" wherever it occurs and substituting "***specified firm registrant***".***

5. Appendix A-3 is amended by striking out "registrant***" wherever it occurs and substituting "***specified firm registrant***".***

6. Appendix A-4 is amended by striking out "registrant***" wherever it occurs and substituting "***specified firm registrant***".***

7. This Instrument comes into force on the day National Instrument 31-103 Registration Requirements and Exemptions comes into force.

Amendments to Multilateral Policy 34-202 *Registrants Acting As Corporate Directors*

1. Multilateral Policy 34-202 Registrants Acting as Corporate Directors is amended by this Instrument.

2. Section 1.3 is amended by striking out "Any director of a reporting issuer who is a partner, director, officer or employee of a registrant should, in the view of the Canadian securities regulatory authorities, recognize that the director's first responsibility in this area is to the reporting issuer on whose board the director serves. A director should meticulously avoid any disclosure of inside information to partners, directors, officers and employees of the registrant or to its clients.***" and substituting "***Any director of a reporting issuer who is a partner, director, officer, employee or agent of a registrant should, in the view of the Canadian securities regulatory authorities, recognize that the director's first responsibility in this area is to the reporting issuer on whose board the director serves. A director should meticulously avoid any disclosure of inside information to partners, directors, officers, employees or agents of the registrant or to its clients.***"**

3. ***Section 1.4 is amended by striking out "***If a representative of a registrant***" and substituting "***If a partner, director, officer, employee or agent of a registrant***".***

4. ***Section 1.6 is repealed.***

5. ***This Instrument comes into force on the day National Instrument 31-103 Registration Requirements and Exemptions comes into force.***

Amendments to National Instrument 81-102 *Mutual Funds*

1. ***National Instrument 81-102 Mutual Funds is amended by this Instrument.***

2. ***Section 1.1. is amended in the definition of "***specified dealer***" by striking out "***limited market dealer***" and substituting "***exempt market dealer***".***

3. ***Appendix C is amended***

a. ***in the column "***Jurisdiction***"***

i. ***by striking out "***Alberta***",***

ii. ***by striking out "***Ontario***", and***

iii. ***by striking out "***Quebec***".***

b. ***in the column "***Securities Legislation Reference***"***

i. ***by striking out "***Section 9 of ASC Policy 7.1***",***

ii. ***by striking out "***Section 227 of Reg. 1015***", and***

iii. ***by striking out "***Article 236 and 237.1 of the Securities Regulation***".***

4. ***This Instrument comes into force on the day National Instrument 31-103 Registration Requirements and Exemptions comes into force.***

Amendments to National Instrument 81-104 *Commodity Pools*

1. ***National Instrument 81-104 Commodity Pools is amended by this Instrument.***

2. ***In section 1.1.(1), the definition of "***mutual fund restricted individual***" is amended by striking out "***salesperson, partner, director or officer of a dealer***" and substituting "***dealing representative of a registered dealer***".***

3. This Instrument comes into force on the day National Instrument 31-103 Registration Requirements and Exemptions comes into force.

Amendments to National Instrument 81-105 *Mutual Fund Sales Practices*

1. National Instrument 81-105 Mutual Fund Sales Practices is amended by this Instrument.

2. Section 1.1. is amended by repealing the definition of "representative***" and substituting the following:***

"representative" means, for a participating dealer,

(a) a partner, director, officer or employee of the participating dealer,

(b) an individual who trades securities on behalf of the participating dealer, whether or not the individual is employed by the dealer, and

(c) any company through which a person referred to in paragraphs (a) or (b) carries on activities in connection with services provided to the participating dealer.

3. Section 1.2 is repealed and the following is substituted:

1.2 Interpretation – Terms defined in National Instrument 81-102 *Mutual Funds* and used in this Instrument have the respective meanings ascribed to them in National Instrument 81-102 *Mutual Funds*.

4. This Instrument comes into force on the day National Instrument 31-103 Registration Requirements and Exemptions comes into force.

Amendments to Companion Policy 81-105 CP *Mutual Fund Sales Practices*

1. Companion Policy 81-105CP Mutual Fund Sales Practices is amended by this Instrument.

2. Part 3 is amended by repealing section 3.1(1).

3. This Instrument comes into force on the day National Instrument 31-103 Registration Requirements and Exemptions comes into force.

Amendments to National Instrument 81-107 *Independent Review Committee for Investment Funds*

1. National Instrument 81-107 Independent Review Committee for Investment Funds is amended by this Instrument.

2. Section 6.2 is amended by deleting subsection (4).

3. Appendix A is amended

a. ***by adding*** "Northwest Territories***" after "***New Brunswick***" under the heading "***Jurisdiction***",***

b. ***by adding "***Part 11 – Insider Reporting and Early Warning of the *Securities Act* (Northwest Territories)***" under the heading "***Securities Legislation Reference***" opposite "***Northwest Territories***", and***

c. ***by adding"***and section 13.5 of National Instrument 31-103 – Registration Requirements and Exemptions***" after "***Part 4 of National Instrument 81-102 Mutual Funds***".***

4. Appendix B is repealed and the following is substituted:

JURISDICTION	**LEGISLATION REFERENCE**
Alberta	Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*
British Columbia	Section 127(1)(b) of the *Securities Act* (British Columbia)
	Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*
Manitoba	Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*
New Brunswick	Section 144(1)(b) of the *Securities Act* (New Brunswick)
	Section 11.7(6) of Local Rule 31-501 Registration Requirements
	Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*
Newfoundland and Labrador	Section 119(2)(b) of the *Securities Act* (Newfoundland and Labrador)
	Section 103(6) of Reg. 805/96
	Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*
Northwest Territories	Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*
Nova Scotia	Section 126(2)(b) of the *Securities Act* (Nova Scotia)
	Section 32(6) of the General Securities Rules
	Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*

Nunavut	Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*
Ontario	Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*
Prince Edward Island	Section 38.1(6) of Securities Act Regulations Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*
Quebec	Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*
Saskatchewan	Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*
Yukon	Section 13.5(2)(b) of National Instrument 31-103 *Registration Requirements and Exemptions*

5. This Instrument comes into force on the day National Instrument 31-103 Registration Requirements and Exemptions comes into force.

Revocation or rescission of national instruments, multilateral instruments and companion policies

Revocation of Multilateral Instrument 11-101 Principal Regulator System

Multilateral Instrument 11-101 *Principal Regulator System* is revoked on the day National Instrument 31-103 *Registration Requirements and Exemptions* comes into force.

Rescission of Companion Policy 11-101CP Principal Regulator System

Companion Policy 11-101CP *Principal Regulator System* is rescinded on the day National Instrument 31-103 *Registration Requirements and Exemptions* comes into force.

Revocation of National Instrument 33-102 Regulation of Certain Registrant Activities

National Instrument 33-102 *Regulation of Certain Registrant Activities* is revoked on the day National Instrument 31-103 *Registration Requirements and Exemptions* comes into force.

Rescission of Companion Policy 33-102CP Regulation of Certain Registrant Activities

Companion Policy 33-102CP *Regulation of Certain Registrant Activities* is rescinded on the day National Instrument 31-103 *Registration Requirements and Exemptions* comes into force.

Revocation of National Policy 34-201 Breach of Requirements of Other Jurisdictions

National Policy 34-201 *Breach of Requirements of Other Jurisdictions* is revoked on the day National Instrument 31-103 *Registration Requirements and Exemptions* comes into force.