

**PROVINCIAL/TERRITORIAL COUNCIL OF  
MINISTERS OF SECURITIES REGULATION  
(Council)**

**PROGRESS REPORT  
January 2010 to December 2010**

**BACKGROUND**

Over the past six years, the Council together with provincial and territorial securities regulators (collectively referred to as the Canadian Securities Administrators or CSA) has provided effective and meaningful regulatory reforms to keep pace with changing markets conditions and to regulate in the best interests of investors through complementary legislative and regulatory initiatives.

All provinces and territories, except Ontario, signed the 2004 *Provincial/Territorial Memorandum of Understanding Regarding Securities Regulation* (MOU) and are represented on the Council by their ministers responsible for securities regulation.

Under the MOU, signatory jurisdictions committed to improving the securities regulatory system by implementing an operational passport system based on highly harmonized and streamlined securities laws and to explore, on an ongoing basis, new opportunities to strengthen the Canadian securities regulatory framework. With the cooperation of the CSA, a fully operational passport system was implemented across Canada in September 2009, allowing the Council to deliver on a key commitment under the MOU in a timely manner.

The MOU recognizes that securities regulation in Canada is a matter of provincial jurisdiction, and that the securities regulatory system requires constant innovation and reform to keep pace with evolving capital markets.

The Council established a Taskforce of provincial/territorial representatives to work with the CSA to implement the passport system and to coordinate the timely implementation of work plans approved by the Council to ensure that our provincially-based securities regulatory system continues to be up-to-date and responsive. The Taskforce also coordinates ongoing policy and regulatory reform among the MOU jurisdictions.

The Council is committed to maintaining and enhancing the status of Canada's securities regulatory system, which is already ranked by the Organization for Economic Co-operation and Development and the World Bank Group as one of the best in the world. The Milken Institute has also recognized Canada as the leader in providing access to business capital for the last two years.

These independent rankings attest to the success of the Council's commitment to maintaining an enhanced provincial/territorial regulatory framework that is efficient, cost-effective and simple to use. Our provincially-based regulatory system works well, inspiring investor confidence and supporting competitiveness, innovation and growth.

## **2010 RESULTS**

2010 continued to be a challenging year for governments and their regulators worldwide dealing with the aftermath of the global financial crisis. Global financial system reforms continued to be the focus of the G20 at its June and November summits in Toronto and Seoul. The G20 (including Canada) reiterated its commitment to implement, in a timely manner, measures to improve transparency and regulatory oversight of hedge funds, credit rating organizations and over-the-counter (OTC) derivatives in an internationally consistent and nondiscriminatory way.

The Council and the CSA reaffirmed their commitment to implementing the necessary legislative and regulatory responses to ensure Canada's international commitments are fully implemented on a timely basis.

The CSA 2009-2012 work plan includes initiatives to improve transparency and regulatory oversight of hedge funds, credit rating organizations/agencies and OTC derivatives in Canada, coming out of G20 international commitments. Council Ministers are committed to bringing forward legislative amendments to further reform our securities regulatory system to help Canada meet its international commitments to global financial system reforms.

2010 saw continued cooperation and coordination among MOU jurisdictions and the CSA to further harmonize and reform the Canadian securities regulatory system.

### Meetings/Conference Calls and Consultations

Council met twice in 2010: on February 5 and December 19.

Council met with the Taskforce, CSA representatives and Ontario officials on February 5 in Edmonton. The Ontario Minister of Finance was also invited to the Council meeting but was unable to attend. Highlights from that meeting included:

- Council confirmation of the Alberta Minister of Finance and Enterprise as Council chair.
- Council approval of the CSA 2009-12 work plan and agreement to undertake necessary legislative changes.
- Discussion of the Government of Canada's efforts to create a single securities regulator in Canada and agreement by the Council not to make decisions on the federal proposal until Council Ministers had an opportunity to review the draft federal securities legislation.

The Council met with the Taskforce and CSA representatives on December 19 in Calgary. All MOU jurisdictions were represented at the Council meeting (either by phone or in person). Ten ministers participated with the others represented by Deputy Ministers or other senior officials. At that meeting, the Council reaffirmed its commitment to the CSA 2009-2012 work plan and its timely implementation.

The Council also conducted two conference calls in June and September. At each conference call, the Council reaffirmed its commitment to on-going regulatory reform of the Canadian securities regulatory system.

In addition to regular conference calls, the Taskforce met in December in Montreal.

#### Taskforce Consultation with Stakeholders

At the request of the Council in June 2010, the Taskforce struck a working group of provincial/territorial government officials (working group) to work with industry, provincial/territorial securities regulators, self-regulatory organizations and other stakeholders to explore options for the incorporation of individual sales representatives of registered dealers and advisers.

At the December 2010 Taskforce meeting, the Taskforce approved the publication of the working group's consultation paper on the incorporation issue. The consultation paper identifies three options for dealing with the incorporation issue and also includes six questions related to those options. The consultation paper is available in French and English and is posted on the Alberta Finance and Enterprise and Québec Finance websites. The comment period expired February 25, 2011. No government or securities regulator has approved any of these options.

Alberta Finance and Enterprise website (English version):

<http://www.finance.alberta.ca/publications/other/2010-1220-consultation-incorporation-dealers.pdf>

Québec Finance website (French version):

<http://www.finances.gouv.qc.ca/fr/page.asp?sectn=2&contn=401>

A summary of the submissions will also be posted to the Alberta Finance and Enterprise and Québec Finance websites after the expiration of the comment period.

#### Federal Transition to a Single Securities Regulator

The 2009 Progress Report highlighted steps taken by the federal government to establish a single national securities regulator in Canada. The federal government continues to advance its plan to create a single national securities regulator.

- On May 26, the federal government released its draft federal securities legislation and referred the draft legislation to the Supreme Court of Canada for an opinion on its validity.

- On July 12, the Canadian Securities Transition Office (Transition Office) delivered its Transition Plan for the Canadian Securities Regulatory Authority to the federal Minister of Finance and the ministers responsible for securities regulation in the participating provinces and territories. The Transition Plan targets a July 1, 2012 launch date for establishing a new single national securities regulator.
- On September 13, the Alberta Minister of Finance and Enterprise and Québec Finance Minister called on the other provinces to hold off signing any “development agreement” to support the federal government’s single securities regulator proposal. The purpose of the development agreement, as outlined in the Transition Plan, was to formalize a participating jurisdiction’s intentions to continue to work with the Transition Office and participate in the development the new national securities regulator.
- Between October and December, senior staff from securities regulators in British Columbia, Saskatchewan, Ontario and New Brunswick were seconded to the Transition Office to begin work in initial regulations, human resources issues and fee design for the new national securities regulator.

#### Constitutional Reference Updates

- In June 2009, Québec launched a constitutional challenge to the federal proposal. The Québec reference will be heard by the Quebec Court of Appeal from January 17 to 20, 2011 and Alberta has intervened in support of the Québec reference.
- In February 2010, Alberta filed a constitutional reference with the Alberta Court of Appeal challenging the federal government’s authority to enact comprehensive securities legislation. The Alberta reference will be heard in the Alberta Court of Appeal on January 24, 2011. Québec has intervened in support of the Alberta reference.
- The federal government’s constitutional reference will be heard by the Supreme Court of Canada from April 13-14, 2011.

**Update: In opinions released in March 2011, the Alberta Court of Appeal and the majority of the Québec Court of Appeal concluded that the federal government lacked the legislative authority to enact its draft securities legislation.**

#### CSA Activity

- The Council, the Taskforce and the CSA continue to work together to coordinate the harmonization, modernization and streamlining of regulatory requirements through complementary legislation and rules. They also continue to pursue initiatives to strengthen investor protection. CSA activities during 2010 are highlighted in the attached appendix.

### Securities Fraud Working Group

- The Council has requested regular status updates from the Securities Fraud Enforcement Working Group (Working Group) on its six recommendations. The last update was provided at the February 2010 Council meeting.
- Previous Progress Reports provide information on the Working Group and its six recommendations.

### Free Trade and Mutual Recognition

- The Council has requested regular status updates from the CSA on its discussions with the United States Securities Exchange Commission (SEC) regarding the U.S.-Canada mutual recognition arrangement. The last update was provided at the February 2010 Council meeting.
- This initiative appears to have been deferred as a result of the global financial crisis and changed priorities within the SEC.

### Harmonized Securities Transfer Legislation

- In 2010, Nova Scotia, Nunavut and Yukon joined British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Northwest Territories and Newfoundland and Labrador in adopting highly harmonized securities transfer legislation (STAs).
- The STA establishes a comprehensive system of rules for the holding and transferring of securities to better reflect market practices and current business realities.
- Prince Edward Island plans to introduce the STA in 2011.

### Canadian Public Accountability Board (CPAB)

- CPAB was created in 2003 to provide independent oversight of auditors of Canadian public companies and derives its authority from National Instrument 52-108 *Auditor Oversight*.
- In 2006, Québec and Ontario passed separate and differing CPAB legislation.
- At its September 18, 2008 meeting, the Council approved a legislative framework that provides powers and protections to CPAB, with oversight of CPAB based on a traditional recognition model already found in securities legislation.
- In fall 2009, British Columbia and Québec passed amendments providing for oversight of CPAB as a self-regulatory organization - the British Columbia amendments came into force in November 2010.

- In 2010, the CSA established a committee to provide for oversight of CPAB as a self-regulatory organization. The CSA committee is currently working with CPAB on a harmonized recognition order. No firm timeline has been set for adoption of the order until a legislative framework for oversight of CBAP is in place across Canada.
- The remaining jurisdictions are targeting introducing CPAB-related amendments to their securities legislation in 2011 or 2012.

#### Credit Rating Organizations Regulation

- Credit rating organizations are not currently subject to formal securities regulatory oversight in Canada. Credit rating reform is identified as a priority in the CSA 2009-2012 work plan.
- British Columbia, Alberta, Québec, Nova Scotia and Ontario have passed amendments to provide a legislative framework for oversight of credit rating organizations and the remaining jurisdictions plan to follow suit in 2011.
- In July 2010, the CSA published a proposed rule to provide for regulatory oversight of credit rating organizations in Canada. Under the proposed rule, a designated rating organization would have to comply with a code of conduct consistent with IOSCO's revised code of conduct fundamentals for credit rating organizations and disclose any deviations from the code.

#### International Financial Reporting Standards

- Effective January 1, 2011, Canadian public issuers will move from using Canadian generally accepted accounting principles (Canadian GAAP) to International Financial Reporting Standards (IFRS) when preparing their financial statements.
- The CSA has published IFRS-related changes to national instruments to facilitate the transition to IFRS in Canada.
- The transition to globally accepted accounting standards will enhance the comparability of financial reporting for investors and other stakeholders in global capital markets.
- British Columbia, Alberta, Nova Scotia and Ontario have enacted IFRS-related legislative amendments. IFRS-related legislative amendments are not required in Manitoba or Québec.
- The remaining jurisdictions have committed to bringing forward IFRS-related legislative amendments in 2011.

## FUTURE REFORMS

Going forward, the Council remains committed to on-going reform of the current securities regulatory system to help Canada meet its international commitments, keep pace with changing market conditions and regulate in the best interests of investors.

- *Derivatives*: Harmonized derivatives legislation and rules across Canada has been a priority of the Council since 2008. Derivatives regulatory reform is identified as a priority in the CSA 2009-2012 work plan. A CSA derivatives committee is developing a proposal for a harmonized regulatory approach to the regulation of derivatives across Canada that will consider international recommendations and developments.

The committee will also identify any legislative amendments required to implement its proposal. Ontario recently passed amendments to its securities legislation to establish a regulatory framework for trading in derivatives and new rule-making authority to allow the Ontario Securities Commission to oversee and supervise trading in derivatives in Ontario. Québec passed modernized derivatives legislation in 2008 and recently introduced technical amendments to its *Derivatives Act*. Alberta, British Columbia, Saskatchewan and New Brunswick already regulate trading in derivatives as exchange contracts under their securities legislation. Manitoba and Ontario currently regulate trading in exchange-traded derivatives as commodity future contracts under their commodity futures legislation.

- *OTC Derivatives*: In November 2010, the CSA Derivatives Committee published a consultation paper summarizing recommendations intended to strengthen the regulation of Canada's financial markets and to manage specific risks related to OTC derivatives market. The CSA aims to implement Canada's G20 commitments in a manner appropriate for the Canadian markets and harmonize regulatory oversight to the extent possible with international jurisdictions.
- *Hedge Funds*: The CSA has initiatives underway to assess the hedge fund sector in Canada. For example, the CSA (Ontario and Québec regulators) has participated in an IOSCO survey on hedge funds to help regulators assess possible systemic risks associated with the hedge fund industry.
- *Investor Protection*: The Council, in partnership with the CSA, will continue to focus on means of enhancing investor protection from fraudulent, manipulative or misleading practices through a variety of mechanisms, including education, effective disclosure and market oversight mechanisms. Examples of ongoing initiatives include the following.
  - *Point of Sale Disclosure Project*: The CSA will proceed with a phased implementation (three stages) of the Point of Sale disclosure project for mutual funds. Beginning January 1, 2011, a new disclosure regime will be implemented across Canada for mutual funds based on the use of the new Funds Facts disclosure document.

- *Scholarship Plans:* The CSA will proceed with a phased-in approach to modernize the regulation of scholarship plans. In March, the CSA published a proposal aimed at providing investors with more meaningful and effective disclosure of scholarship plans. Central to the proposal is a new Plan Summary document which will highlight the potential benefits, risks and costs of investing in a scholarship plan.
- *Clearer Registration Rules:* In June, the CSA published a proposal to amend the registration rules for dealers, advisers and investment fund managers intended to make registration rules clearer and ongoing requirements more targeted to further enhance investor protection.

## **REVIEWING PROGRESS**

Ministers are committed to keeping stakeholders informed of the progress that is being achieved in fulfilling their governments' commitments to maintain and enhance the status of Canada's securities regulatory system, which is already ranked as one of the best in the world.

Previous progress reports, press releases and access to other relevant information can be obtained at [www.securitiescanada.org](http://www.securitiescanada.org).



## Appendix – 2010 CSA Activity

2010	CSA INITIATIVES
January	<ul style="list-style-type: none"> <li>– <b>New Insider Reporting Regime Implementation Date Announced:</b> On January 22, 2010, the CSA gave advance notice of the adoption of a new insider reporting regime in Canada to come into effect on April 30, 2010, subject to obtaining all the necessary government approvals.</li> </ul>
March	<ul style="list-style-type: none"> <li>– <b>Improved Scholarship Plan Disclosure for Investors:</b> On March 24, 2010, the CSA published for comment amendments to National Instrument 41-101 <i>General Prospectus Requirements</i> and Form 41-101 <i>Information Required in an Investment Fund</i> that are aimed at providing investors with more meaningful and effective disclosure about scholarship plans. Central to this proposal is a new summary document, <i>Form 41-101F3 Information Required in a Scholarship Plan Prospectus</i>, that highlights the potential benefits, risks and costs of investing in a scholarship plan. The comment period expired June 22, 2010. The CSA also confirmed its intention to proceed with a phased-in approach to modernize the regulation of scholarship plans.</li> </ul>
April	<ul style="list-style-type: none"> <li>– <b>New, Harmonized Insider Reporting Regime Implemented across Canada effective April 30, 2010:</b> National Instrument 55-104 <i>Insider Reporting and Exemptions</i>, the companion policy, and related amendments set out the framework and guidelines for the new, harmonized insider reporting regime. The new regime consolidates detailed insider reporting requirements and exemptions into a single national instrument in all Canadian jurisdictions except Ontario. The new rule provides a more focused and timely insider reporting system to benefit investors and market participants who use the system.</li> <li>– <b>Improved Issuer Communications with Investors:</b> On April 9, 2010, the CSA published for comment amendments to National Instrument 54-101 <i>Communication with Beneficial Owners of Securities of a Reporting Issuer</i>, its companion policy and related instruments that are aimed to improve procedures for issuer communications with investors who hold securities through intermediaries (i.e. dealers, trust companies or banks). The comment period expired August 31, 2010.</li> <li>– <b>Updated Disclosure Rules for Mining Companies:</b> On April 23, 2010, the CSA published for comment proposals to update the rules that govern disclosure by mining companies. The comment period expired July 23, 2010.</li> </ul>
May	<ul style="list-style-type: none"> <li>– <b>Streamlining Venture Issuer Regulation:</b> On May 31, 2010, securities regulators in British Columbia, Alberta, Saskatchewan, New Brunswick and Nova Scotia published a consultation paper, Multilateral Consultation Paper 51-403 <i>Tailoring Venture Issuer Regulation</i>, to solicit feedback designed to assess market interest in developing a more tailored approach to regulating venture issuers. The comment period expired September 17, 2010. CSA jurisdictions not participating in the consultation process have expressed interest in the market response to the proposal.</li> </ul>

2010	CSA INITIATIVES
June	<ul style="list-style-type: none"> <li data-bbox="285 235 1433 401">– <b>Staged Implementation of New Point of Sale Disclosure Regime for Mutual Funds:</b> On June 16, 2010, the CSA published advance notice of its plans to proceed with a phased implementation (three stages) of the Point of Sale disclosure project for mutual funds. The project aims to provide investors with more meaningful and effective disclosure about mutual funds.</li> <li data-bbox="285 407 1433 804">– <b>National Registration Rule Improvements:</b> Last year, the CSA committed to proposing additional amendments to National Instrument 31-103 <i>Registration Requirements and Exemptions</i> (NI 31-103) to address investor protection, market efficiency or other regulatory concerns arising from the implementation of the new registration regime in 2009. On June 25, 2010, the CSA published for comment proposals to amend the registration rules for dealers, advisers and investment fund managers which are intended to make registration rules clearer and ongoing requirements more targeted, and enhance investor protection. The CSA also proposes that NI 31-103 be renamed as <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> to better reflect the breadth and scope of the national registration rule, which extends beyond initial registration. The comment period expired September 30, 2010.</li> <li data-bbox="285 810 1433 1041">– <b>Modernization of Investment Funds Regulation:</b> On June 25, 2010, the CSA published for comment proposed amendments to National Instrument 81-102 <i>Mutual Funds</i> and related instruments. The proposed amendments represent the first phase of a two-stage process to modernize investment fund product regulation in Canada. The second phase is expected to focus on the requirements dealing with non-conventional investment funds such as exchanged-traded funds. The comment period expired September 24, 2010.</li> </ul>
July	<ul style="list-style-type: none"> <li data-bbox="285 1064 1433 1392">– <b>New Proposed Rule to Regulate Credit Rating Organizations in Canada:</b> On July 16, 2010, the CSA published for comment proposed National Instrument 25-101 <i>Designated Rating Organizations</i> and related consequential amendments to establish a securities regulatory regime for credit rating organizations. Central to the proposal is the requirement that credit rating organizations apply to become a ‘designated rating organization’ allowing their ratings to be used for various purposes under securities legislation. Under the proposed rule, securities regulatory authorities will not have the power to direct or regulate the content of credit ratings or the methodologies used to determine credit ratings. The comment period expired October 25, 2010.</li> </ul>

2010	CSA INITIATIVES
<b>October</b>	<ul style="list-style-type: none"> <li data-bbox="285 237 1443 365">– <b>Transition to International Financial Reporting Standards in Canada Effective January 2011:</b> On October 1, 2010, the CSA published International Financial Reporting Standards (IFRS) -related materials to support Canada’s transition to IFRS on January 1, 2011.</li> <li data-bbox="285 373 1443 604">– <b>Improved Disclosure for Mutual Funds Beginning January 1, 2011:</b> On October 6, 2010, the CSA published amendments to National Instrument 81-101 <i>Mutual Funds Prospectus Disclosure</i>, its forms and companion policy and related rule amendments that are aimed at providing investors with more meaningful and effective mutual fund disclosure. Beginning January 1, 2011, mutual fund companies will be required to produce a new document, Funds Facts, for each class or series for each of their mutual funds.</li> <li data-bbox="285 613 1443 806">– <b>Improved Disclosure Requirements for Oil and Gas Reporting Issuers Effective December 30, 2010:</b> On October 15, 2010, the CSA introduced amendments to National Instrument 51-101 <i>Standards of Disclosure for Oil and Gas Activities</i> and related forms that will come into force across Canada on December 30, 2010. These amendments are designed to improve and clarify the disclosure of oil and gas reporting issuers.</li> </ul>
<b>November</b>	<ul style="list-style-type: none"> <li data-bbox="285 816 1443 1010">– <b>Proposed Over-the Counter Derivatives Regulation:</b> On November 2, 2010, the CSA published for comment Consultation Paper 91-401 <i>Over-the-Counter Derivatives Regulation in Canada</i> regarding the regulation of over-the-counter derivatives in Canada. The consultation paper responds to the G20 recommendations to develop a more robust oversight of the financial markets, including OTC derivatives. The comment period expires January 14, 2011.</li> <li data-bbox="285 1018 1443 1276">– <b>CSA/IIROC Publish Proposals on Regulatory Framework for Dark Pools and Dark Orders:</b> On November 19, 2010, the CSA and the Investment Industry Regulatory Organization of Canada (IIROC) published a consultation paper setting out their position regarding the regulatory framework for dark pools and dark orders in Canada. The CSA/IIROC Joint Consultation Paper 23-405 <i>Dark Liquidity in the Canadian Market</i> is the next step in a process that began with a joint consultation paper on issues surrounding dark liquidity in 2009. The comment period expires January 10, 2011.</li> </ul>