

**PROVINCIAL/TERRITORIAL COUNCIL OF MINISTERS  
OF SECURITIES REGULATION (Council)  
ANNUAL PROGRESS REPORT  
January 2012 to December 2012**

**BACKGROUND**

Canada withstood the recent financial crisis better than most other countries and has continued to be a leader in financial stability during the aftermath of the financial crash of 2008. Canada must now turn its attention to the future to ensure that our securities regulatory system reflects the realities of today's 21<sup>st</sup> century markets and keeps in step with evolving international standards and global regulatory reform initiatives.

The Council, in cooperation with the Canadian Securities Administrators (CSA), has provided effective and meaningful reforms, including implementation of a fully operational passport system across Canada in September 2009. The move to a fully operational passport system resulted from unprecedented levels of coordination and consensus among provincial and territorial governments and their regulators to streamline and improve securities regulation across Canada.

The Council recognizes the importance of maintaining an innovative, competitive and flexible regulatory system that protects investors and fosters fair and efficient capital markets. The Council's next challenge is to work collectively to build a stronger, more responsive and effective regulatory framework for all Canadians by taking cooperation and coordination to the next level.

**POST SUPREME COURT OF CANADA OPINION DEVELOPMENTS**

The Council believes it is important that all provinces and territories work collectively to improve the already highly-regarded Canadian securities regulatory system. The Council acknowledges the importance of Ontario being an active participant in the regulatory system going forward and continues to encourage Ontario's participation.

The Council also believes the federal government has a role to play in securities regulation - but not the same role allocated to provinces in the day-to-day regulation of securities in Canada by the Supreme Court of Canada. The Council is prepared to work with the federal government to improve how securities regulation operates in Canada while respecting provincial jurisdiction.

*Status of Council Request to the CSA*

In January 2012, the Council asked the CSA to identify further enhancements to the current regulatory system and to report back to the Council. The CSA has provided Council with a list of structural improvements designed to improve the CSA internal regulatory processes, which include project management and policy committee guidelines and technology enhancements. The CSA's proposed enhancements reflect agreement from all CSA members, including the Ontario Securities Commission.

## 2012 COUNCIL ACCOMPLISHMENTS

At its annual meeting in November 2012, the Council endorsed the Honourable Doug Horner, Alberta Finance Minister, as the Council chair.

2012 saw continued coordination among provinces and territories and their regulators to reform and harmonize the Canadian securities regulatory system and to assist Canada in meeting its international commitments in a timely manner.

CSA members continued to work collaboratively on harmonized policies and requirements, which are highlighted in the attached Appendix.

### Progress of G-20 Commitments

#### *Regulation of Credit Rating Organizations*

- Canadian securities regulators established a new Canadian regulatory regime for the oversight of credit rating organizations on April 20, 2012. National Instrument 25-101 *Designated Rating Organizations* requires credit rating organizations to apply to become a “designated rating organization” and adhere to rules that include conflict of interest, governance and conduct requirements. The new rule is consistent with international regimes for credit rating organizations.
- British Columbia, Alberta, Manitoba, Québec, New Brunswick, Nova Scotia and Ontario have already passed credit rating organizations-related legislative amendments.
- In 2012, Saskatchewan, Northwest Territories and the Yukon passed credit rating organizations-related legislative amendments, with the remaining jurisdictions planning to follow suit in 2013.

#### *Derivatives Regulation*

- The CSA Derivative Committee is developing a proposal for regulation of over-the-counter markets for derivatives across Canada. The Committee will also be identifying any legislative changes necessary for the implementation of its proposal and develop regulations to be implemented in each jurisdiction.
- In Québec, derivatives trading is governed by a comprehensive, stand-alone *Derivatives Act*, which came into force in 2009.
- In June, Manitoba passed (but has not yet proclaimed) derivative-related amendments to its securities legislation to allow for the regulation of over-the-counter derivatives. In December 2010, Ontario passed (but has not yet proclaimed) derivative-related amendments to its securities legislation to establish a detailed regulatory framework for derivatives trading.
- Alberta, British Columbia, Saskatchewan and New Brunswick already regulate exchange-traded derivatives under securities legislation. Manitoba and Ontario will continue to regulate trading in exchange-trade derivatives as commodity future contracts and options.
- Jurisdictions are committed to bringing forward necessary derivative-related amendments to implement a harmonized framework for derivatives regulation across Canada.

### *International Financial Reporting Standards (IFRS)*

- In 2012, Saskatchewan, Northwest Territories and the Yukon passed IFRS-related legislative amendments, joining other Canadian jurisdictions, to support Canada's changeover to IFRS in 2011.
- The remaining three jurisdictions (Prince Edward Island, Newfoundland and Labrador and Nunavut) have committed to bringing these amendments forward in 2013.

### Other Securities-Related Initiatives

#### *Incorporation of Individual Representatives of Registered Dealers and Advisers*

- Council Ministers are committed to moving forward with the incorporation project. A working group of provincial and territorial government officials have developed an incorporation option that gives individual financial representatives the flexibility to provide trading and advising services to their clients through a corporation, without compromising investor protection.
- In spring 2012, the working group of provincial and territorial officials consulted with the CSA, the Investment Industry Regulatory Organization of Canada, the Mutual Fund Dealers Association of Canada and all those who responded to the December 2010 incorporation consultation paper. The consultations sought input on the elements of the incorporation model and supporting draft legislative amendments capable of being adopted across Canada.
- In May, Saskatchewan passed (but has not yet proclaimed) incorporation-related amendments. The legislative amendments are based on a professional corporation structure already in place in most jurisdictions.
- The working group continues to consult with representatives of provincial regulators to implement a harmonized incorporation option across Canada.
- Other jurisdictions plan to bring forward incorporation-related amendments by 2013 at the earliest.

#### *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 2012, Saskatchewan, Northwest Territories and the Yukon passed CPAB-related amendments, joining Québec, British Columbia, Manitoba and New Brunswick, to provide powers and protections to CPAB, with the oversight of CPAB based on a traditional recognition model in securities legislation.
- Ontario passed stand-alone CPAB legislation in 2006.
- The remaining jurisdictions have committed to bringing forward harmonized CPAB-related legislative amendments by 2013 at the earliest.

#### *Harmonized Securities Transfer Legislation*

- All jurisdictions except Prince Edward Island have adopted highly harmonized securities transfer legislation. This legislation establishes a comprehensive system of rules for holding and transferring of securities to better reflect market practices and current business realities.

- Prince Edward Island plans to introduce harmonized securities transfer legislation in 2013.

### Investor Protection

The Council and the CSA continue to focus on enhancing investor protection. These enhancements range from fraudulent, manipulative and misleading practices to a variety of mechanisms, including education, effective disclosure and market oversight.

#### *Secondary Market Civil Liability*

- In June, 2012, Manitoba amended its securities legislation to resolve a problem with the calculation of the limitation period facing persons seeking to commence lawsuits on the basis of secondary market disclosure or misrepresentation.
- The amendments are designed to ensure the limitation period does not continue to run while a plaintiff is seeking the required leave from the court to commence a statutory cause of action under the secondary market civil liability regime.
- Other jurisdictions have committed to bringing forward these amendments by the earliest 2013.

#### *Point of Sale Disclosure Project*

- The CSA is proceeding with a phased (three stages) implementation of the Point of Sale disclosure project. Stage 1 (implemented January 1, 2011) established a Canada-wide disclosure regime for mutual funds based on the use of the new Fund Facts disclosure document.
- Stage 2 will require delivery of a Fund Facts disclosure document within two days of buying a mutual fund and will permit the delivery of the Fund Facts to satisfy the current prospectus delivery requirements under securities legislation.
- In 2012, Saskatchewan, Manitoba, Nova Scotia, Northwest Territories and the Yukon passed stage-2 related amendments, joining British Columbia, Alberta, Québec, New Brunswick and Ontario in supporting the second stage of the project.
- The remaining jurisdictions plan to follow suit with stage-2 related amendments in 2013.
- Stage 3 of the project will consider the applicability of a summary disclosure document and point of sale delivery of other types of publicly offered investment funds.

#### *BlueHedge Investments Website*

- From November 27, 2011 to February 5, 2012, Canadian securities regulators ran an online fraud awareness program to demonstrate how easily investors can fall for investment fraud. This initiative included online advertisements and social media promotions that pointed to a video and website of a fictitious company called BlueHedge Investments. During the 10-week campaign, the BlueHedge Investments website received almost 18,000 visits from across Canada. Approximately 71 per cent of those arriving at the site did so because they clicked on online ads, many of which were featured on popular search engine sites.
- The BlueHedge Investments website ([www.bluehedge.ca/](http://www.bluehedge.ca/)) and its education website ([www.bluehedgeisntreal.ca/](http://www.bluehedgeisntreal.ca/)) continue to remain active to serve as investor education resources.

**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 consistently 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: 2012 Canadian Securities Administrators Activity

2012	CANADIAN SECURITIES ADMINISTRATORS INITIATIVES
January	<ul style="list-style-type: none"> <li>- <b>New Credit Rating Regulatory Organization Regulatory Regime in Canada:</b> On January 27, 2012, the CSA announced the adoption of National Instrument 25-101 <i>Designated Rating Organizations</i> which establishes a regulatory framework for the oversight of credit rating organizations. Credit rating organizations must become a “designated rating organization” and adhere to conflict of interest, governance and conduct requirements. The new regulatory regime came into effect on April 20, 2012.</li> </ul>
February	<ul style="list-style-type: none"> <li>- <b>Investment Funds Modernization Project – phases one and two:</b> On February 9, 2012, the CSA announced the adoption of amendments to National Instrument 81-102 <i>Mutual Funds</i> (NI 81-102) and related instruments to modernize product regulation of publicly offered investment funds. These amendments codified exemptive relief that is frequently granted to mutual funds and exchange-traded mutual funds under NI 81-102 and other investment fund rules. Phase one of the investment fund moderation project came into effect across Canada on April 30, 2012. Phase two of the project will seek to address any issues relating to market efficiency, investor protection or fairness issues resulting from differing regulatory regimes that currently apply to various types of publicly offered investment funds.</li> <li>- <b>Proposal for the Segregation and Portability of Customer Positions and Related Collateral in Cleared Over-the-Counter Derivatives Transactions:</b> On February 10, 2012, the CSA published for comment CSA Consultation Paper 91-404 <i>Derivatives: Segregation and Portability in OTC Derivatives Clearing</i> which addresses the segregation of assets put forward as collateral for OTC derivatives transactions cleared through a central counterparty, by customers that access the central counterparty indirectly through clearing members. The comment period expired April 10, 2012. This is the third consultation paper in a series of eight consultation papers stemming from the regulatory proposals outlined in the November 2010 Consultation Paper 91-401 <i>On Over-the Counter Derivatives Regulation in Canada</i>.</li> </ul>
March	<ul style="list-style-type: none"> <li>- <b>Fraud Awareness Campaign Results:</b> From November 27, 2011 to February 5, 2012, Canadian securities regulators ran an online fraud awareness program to demonstrate how easily investors can fall for investment fraud. This initiative included online advertisements and social media promotions that pointed to a video and website of a fictitious company called BlueHedge Investments. During the 10-week campaign, the BlueHedge Investments website received almost 18,000 visits from across Canada with 71 per cent of those arriving at the site because they clicked on online ads, many of which were featured on popular search engine sites. The BlueHedge Investments website (<a href="http://www.bluehedge.ca/">www.bluehedge.ca/</a>) and its education website (<a href="http://www.bluehedgeisntreal.ca/">www.bluehedgeisntreal.ca/</a>) continue to remain active to serve as investor education resources.</li> </ul>

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April	<ul style="list-style-type: none"> <li>– <b>Proposal of an Over-the-Counter Derivatives Exemption:</b> On April 13, 2012, the CSA published for comment CSA Consultation Paper 91-405 <i>Derivatives: End User Exemption</i> which sets out the CSA Derivatives Committee’s position on the end-user exemption. The comment period ended June 15, 2012. This is the fourth of eight consultation papers that build on the regulatory proposals contained in Consultation Paper 91-401.</li> </ul>
May	<ul style="list-style-type: none"> <li>– <b>Over-The-Counter Rules Strengthened:</b> On May 10, 2012, the CSA announced that Multilateral Instrument 51-105 <i>Issuers Quoted in the U.S. Over-the-Counter Markets</i> (OTC rule) would be adopted in all jurisdictions except Ontario. The OTC rule is intended to address the damage to the reputation of Canada’s capital markets by market participants with strong connections to Canadian jurisdictions who engage in abusive activities through OTC markets in the U.S. The OTC rule came into effect on July 31, 2012.</li> </ul>
June	<ul style="list-style-type: none"> <li>– <b>Proposed Enhanced Disclosure and Investment Reporting by Registrants:</b> On June 14, 2012, the CSA published for a second comment period proposed amendments to National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i>. This would require registered dealers and advisors to provide investors with more complete information of the costs and performance of their investments. One of the goals of this project is to arrive at a common baseline for reporting for all investors. The comment period ended September 14, 2012.</li> <li>– <b>Proposed OTC Central Counterparty Derivatives Clearing Framework:</b> On June 20, 2012, the CSA published for comment Consultation Paper 91-406 <i>Derivatives: OTC Central Counterparty Clearing</i>, which set out the CSA Derivatives Committee’s recommendations for central counterparty clearing of over-the-counter derivatives transactions through regulated central counterparties. The comment period ended September 21, 2012. This is the fifth in a series of eight consultation papers that builds on the regulatory proposals contained in Consultation Paper 91-401. The CSA plans to publish consultation papers dealing with registration (derivatives) and exchange and platform trading (OTC derivatives) in January 2013.</li> <li>– <b>Implementation Date Announced For A Regulatory Framework To Manage Electronic Risks:</b> On June 28, 2012, the CSA announced that National Instrument 23-103 <i>Electronic Trading</i> will come into effect (subject to Ministerial approval) on March 1, 2013. NI 23-103 will establish a regulatory framework for the oversight and management of the risks associated with the use of electronic trading on Canadian marketplaces, which is consistent with international approaches to regulating electronic trading.</li> </ul>
September	<ul style="list-style-type: none"> <li>– <b>Further Consultation On A New Regulatory Regime For Venture Issuers:</b> On September 13, 2012, the CSA published for second comment period proposed National Instrument 51-103 <i>Ongoing Governance and Disclosure Requirements for Venture Issuers</i> (NI 51-103), which was originally published for comment in July 2011. NI 51-103 introduces a new mandatory governance and disclosure regime for venture issuers. In response to market participants’ input, the CSA modified certain aspects of the July 2011 proposal which included changes to the interim financial reporting requirements for venture issuers. The second comment period ended December 12, 2012.</li> </ul>

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October	<ul style="list-style-type: none"> <li>– <b>Publication of Consultation Paper On A Statutory Best Interest Duty For Advisers And Dealers:</b> On October 25, 2012, the CSA published for comment Consultation Paper 33-403 <i>The Standard of Conduct for Advisers and Dealers: Exploring the Appropriateness of Introducing a Statutory Best Interest Duty When Advice is Provided to Retail Clients</i>. This consultation paper discusses the potential benefits and feasibility of imposing a statutory fiduciary duty on advisers and dealers to act in the best interests of their clients. The consultation paper notes that no decisions on this matter will be made without broad public consultation and discussion. The comment period ends February 22, 2013.</li> </ul>
December	<ul style="list-style-type: none"> <li>– <b>Publication of Consultation Paper On Model Rules Relating To Derivatives:</b> On December 6, 2012, the CSA published Consultation Paper 91-301 <i>Model Provincial Rules – Derivatives Product Determination and Trade Repositories and Derivatives Data Reporting</i> for comment. The consultation paper defines the scope of the contracts and instruments to be reported to trade repositories, and sets out requirements for the designation and operation of trade repositories and the mandatory reporting of derivatives trade data. The comment period ends February 4, 2013.</li> <li>– <b>Publication of Consultation Paper on Mutual Fund Fees:</b> On December 13, 2012, the CSA published Discussion Paper 81-407 <i>Mutual Fund Fees</i>, which is intended to solicit feedback on the structure of mutual fund fees in Canada. The paper provides an overview of the current mutual fund fee structure and identifies potential investor protection issues arising from that structure. The paper also considers the potential options available to the CSA to address the identified issues. The CSA plans to hold roundtable discussions with investors and industry participants in 2013. The comment period closes April 12, 2013.</li> </ul>