CSA Staff Notice 31-321

Further Omnibus / Blanket Orders Exempting Registrants from Certain Provisions of National Instrument 31-103 Registration Requirements and Exemptions

November 5, 2010

Since the coming into force of National Instrument 31-103 Registration Requirements and Exemptions (NI 31-103), the Canadian Securities Administrators (the CSA or we) have received requests for relief from certain provisions of NI 31-103. The CSA is in the process of considering certain amendments to NI 31-103 and these provisions will be reconsidered in the course of the amendments process.

In the interim, each of the CSA members has issued parallel orders (the “orders”) that provide relief:

- from the requirement under section 13.2(2)(b) of NI 31-103 to establish whether a client is an insider in respect of trades of securities listed in section 7.1(2)(b) or (c) of NI 31-103; and

- from the requirement under section 13.2(3)(b)(i) of NI 31-103 to establish the identity of any individual who owns or controls more than 10% of the voting rights attached to the voting securities of a corporation that is a client of a mutual fund dealer.

This Notice summarizes the orders. We are publishing the orders with this Notice. The orders are also available on websites of CSA members, including:

www.lautorite.qc.ca
www.albertasecurities.com
www.besc.bc.ca
www.msc.gov.mb.ca
www.gov.ns.ca/nssc
www.nbsc-cvnnb.ca
www.osc.gov.on.ca
www.sfsc.gov.sk.ca

1. Relief from the requirement under section 13.2(2)(b) of NI 31-103 to establish whether a client is an insider

Section 13.2(2)(b) of NI 31-103 provides that a registrant must take reasonable steps to establish whether a client is an insider of a reporting issuer or any other issuer whose securities are publicly traded. On February 26, 2010, each regulator issued an order that exempts a mutual fund dealer from section 13.2(2)(b). This order is revoked and replaced by parallel orders issued by the CSA which will take effect on November 5, 2010.
Considering that it is unlikely for a trade in securities listed in sections 7.1(2)(b) or 7.1(2)(c) of NI 31-103 to give rise to insider trading concerns, the new order provides that section 13.2(2)(b) does not apply to a registrant in respect of a client so long as the registrant only trades securities for that client that are listed in those sections.

The securities listed in sections 7.1(2)(b) and 7.1(2)(c) of NI 31-103 are the following:

- mutual funds;
- except in Québec, investment funds that are labour-sponsored investment fund corporations or labour-sponsored venture capital corporations under legislation of a jurisdiction of Canada; and
- securities of a scholarship plan, an educational plan or an educational trust.

We remind registrants that they remain subject to the requirement in section 13.2(2)(b) when they trade any other securities than those listed in sections 7.1(2)(b) and 7.1(2)(c) of NI 31-103.

2. Relief from the requirement under section 13.2(3)(b)(i) of NI 31-103 for mutual fund dealers

As part of the know your client requirements, section 13.2(3)(b)(i) of NI 31-103 requires a registrant to collect information about the identity of any individual who owns or controls more than 10% of the voting rights attached to the voting securities of a corporate client. The purpose of this requirement is to identify the client, and if there is cause for concern, to make reasonable inquiries as to the reputation of the client in order to protect market integrity.

Considering that mutual fund dealers trade primarily in publicly offered mutual funds which have restrictions on investments and that these dealers are required to identify any person who owns or controls 25% or more of the shares of a corporate client under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), compliance with section 13.2(3)(b)(i) of NI 31-103 presents significant costs that exceed any investor benefit.

Since investment fund managers are not subject to section 13.2 of NI 31-103, registration of a mutual fund dealer in this category does not preclude use of this relief.

Each regulator has therefore issued an order that exempts a mutual fund dealer from the application of the requirements of section 13.2(3)(b)(i) of NI 31-103, provided that:

- the mutual fund dealer is not registered in any other category of registration other than investment fund manager; and
- the mutual fund dealer complies with the provisions of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada) requiring them to identify any person who owns or controls 25% or more of the shares of a corporate client.
Questions

If you have questions regarding this Notice or the orders please direct them to any of the following:

Lindy Bremner  
Senior Legal Counsel, Capital Markets Regulation  
British Columbia Securities Commission  
Tel: 604-899-6678  
1-800-373-6393  
lbremner@bcsc.bc.ca

Navdeep Gill  
Legal Counsel, Market Regulation  
Alberta Securities Commission  
Tel: 403-355-9043  
navdeep.gill@asc.ca

Curtis Brezinski  
Compliance Auditor  
Saskatchewan Financial Services Commission  
Tel: 306-787-5876  
curtis.brezinski@gov.sk.ca

Chris Besko  
Legal Counsel, Deputy Director  
The Manitoba Securities Commission  
Tel. 204-945-2561  
Toll Free (Manitoba only) 1-800-655-5244  
chris.besko@gov.mb.ca

Dirk de Lint  
Senior Legal Counsel  
Compliance and Registrant Regulation  
Ontario Securities Commission  
Tel: 416-593-8090  
ddelint@osc.gov.on.ca

Sophie Jean  
Conseillère en réglementation  
Surintendance de l’assistance à la clientèle, de l’indemnisation et de la distribution  
Autorité des marchés financiers  
Tel: 514-395-0337, ext. 4786  
Toll-free: 1-877-525-0337  
sophie.jean@lautorite.qc.ca
Brian W. Murphy  
Deputy Director, Capital Markets  
Nova Scotia Securities Commission  
Tel: 902-424-4592  
murphybw@gov.ns.ca

Susan Powell  
Senior Legal Counsel  
New Brunswick Securities Commission  
Tel: 506-643-7697  
susan.powell@nbse-cvmnb.ca

Katharine Tummon  
Superintendent of Securities  
Prince Edward Island Securities Office  
Tel: 902-368-4542  
kptummon@gov.pe.ca

Craig Whalen  
Manager of Licensing, Registration and Compliance  
Office of the Superintendent of Securities  
Government of Newfoundland and Labrador  
Tel: 709-729-5661  
cwhalen@gov.nl.ca

Louis Arki, Director, Legal Registries  
Department of Justice, Government of Nunavut  
Tel: 867-975-6587  
larki@gov.nu.ca

Donn MacDougall  
Deputy Superintendent, Legal & Enforcement  
Office of the Superintendent of Securities  
Government of the Northwest Territories  
Tel: 867-920-8984  
donald.macdougall@gov.nt.ca

Frederik J. Pretorius  
Manager Corporate Affairs (C-6)  
Dept of Community Services  
Government of Yukon  
Tel: 867-667-5225  
Fred.Pretorius@gov.yk.ca

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