

CSA Staff Notice 31-341
*Omnibus/Blanket Orders Exempting Registrants from Certain CRM2
Provisions of
National Instrument 31-103 Registration Requirements, Exemptions
and Ongoing Registrant Obligations*

May 21, 2015

Introduction

All members of the Canadian Securities Administrators (the **CSA** or “we”) have issued parallel orders providing relief from certain provisions of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) related to the Client Relationship Model Phase 2 amendments to NI 31-103 which come into effect in stages in 2015 and 2016 (the **2015/2016 CRM2 Amendments**).

Background

The Investment Industry Regulatory Organization of Canada (**IIROC**) and the Mutual Fund Dealers Association of Canada (**MFDA**) (together, these self-regulatory organizations are referred to as the **SROs**) have adopted amendments to their respective member rules that are materially harmonized with the 2015/2016 CRM2 Amendments.

Some registered firms have indicated they may experience difficulty implementing the 2015/2016 CRM2 Amendments or corresponding SRO provisions by their effective dates.

Certain technical issues have also been identified relating to the delivery of information prescribed in the 2015/2016 CRM2 Amendments or corresponding SRO provisions.

Summary of Relief

To address these matters, CSA members (except the Autorité des marchés financiers with respect to relief specific to MFDA member firms) have issued parallel orders to the following effect:

1. **Non-SRO members: More time to implement certain provisions; additional relief addressing technical issues.** For non-SRO members, conditional relief from specified 2015/2016 CRM2 Amendments to the following effect:
 - The new requirements relating to market value, position cost, account statements, additional statements, scholarship plan dealer statements and security holder statements that come into effect on July 15, 2015 may be met starting with statements delivered for the period ending December 31, 2015, instead of the period that includes July 15, 2015.

- Where a firm uses market value instead of position cost as contemplated in the position cost information provisions,
 - for security positions transferred from another registered firm, it may meet the requirement to disclose in the statement that the market value, not the cost of the security position, is being disclosed without having to specify that it is the market value as of the transfer date;
 - for existing accounts, it may use a date as at December 31, 2015 or a date earlier than December 31, 2015 chosen by the firm that is the same for all “similar clients” of the firm holding the security, rather than for *all* clients of the firm holding the security;

“similar clients” for purposes of the order means any of the following:

- (a) clients whose accounts or security positions were transferred together,
 - (b) clients on the same reporting system if a registered firm has more than one reporting system,
 - (c) other clients whose accounts or security positions would appear to a reasonable person to be similar in a way that relates to the recording or calculation of market value or position cost.
- The requirement to identify securities that may be covered under an investor protection fund in their additional statements does not have to be met (we plan to publish a proposal to amend this requirement at a later date). IIROC’s existing investor protection fund disclosure requirements remain in effect. The MFDA has introduced equivalent requirements that will come into effect as of December 31, 2015.
 - The requirements that investment performance reports must include market value information as at and since July 15, 2015 may be met instead,
 - where the firm has decided to report on a calendar year basis (i.e., its first reports will cover the period January 1, 2016 to December 31, 2016), by including market value information as at and since January 1, 2016 (the firm is not required to provide the information for any earlier period), or a date earlier than January 1, 2016 chosen by the firm that is the same for all similar clients;
 - where the firm has decided not to report on a calendar year basis (e.g., its first reports will cover the period from July 15, 2016 to July 14, 2017), by including market value information as at and since July 15, 2015 or a date earlier than July 15, 2015 chosen by the firm that is the

same for all similar clients.

- The requirements that investment performance reports must include annualized total percentage return information since inception or for the period since July 15, 2015 may be met as follows,
 - where the firm has decided to report on a calendar year basis, by providing the information for the 12-month period ending December 31, 2016 (the firm is not required to provide the information for any earlier period or in any subsequent performance reports that cover the 12-month periods ending December 31, 2017 and each calendar year thereafter);
 - where the firm has decided not to report on a calendar year basis, by providing the information:
 - (A) for the period since the account was opened, if the account has been opened for at least a year before the date of the report, or
 - (B) for the period since July 15, 2015 *or an earlier date chosen by the firm that is the same for all “similar clients”*, if the account was opened before July 15, 2015 (the firm is not required to conclude that it believes information since inception is not available; it should have a reasonable basis for its choice of date).

2. **SRO Members: Member rules instead of 2015/2016 CRM2 Amendments.** For SRO members, relief from the 2015/2016 CRM2 Amendments, if they comply with the corresponding SRO provisions applicable to them instead.

Note that an SRO member seeking discretionary relief from any provisions other than those relating to investment fund manager or scholarship plan dealer activities should apply only to their SRO – there is no need to also apply to the CSA for relief from the corresponding provision in NI 31-103.

The CSA members plan to publish proposals to amend NI 31-103 to revise certain of the 2015/2016 CRM2 Amendments permanently. The SROs plan to make housekeeping amendments to conform their member rules with certain of the relief described in paragraph 1 of this Notice.

Relief Order

The order will take effect on July 15, 2015.

For the specific provisions of the relief summarized above, see the applicable orders available on websites of CSA members including here:

www.lautorite.qc.ca
www.albertasecurities.com
www.bsc.bc.ca
www.msc.gov.mb.ca
www.gov.ns.ca/nssc
www.fcnb.ca
www.osc.gov.on.ca/en/Dealers_omnibus-orders.htm
www.fcaa.gov.sk.ca

Questions

Please refer your questions to any of the following:

Christopher Jepson
Senior Legal Counsel
Compliance and Registrant Regulation
Ontario Securities Commission
416-593-2379
cjepson@osc.gov.on.ca

Brian W. Murphy
Deputy Director, Capital Markets
Nova Scotia Securities Commission
902-424-4592
murphybw@gov.ns.ca

G rard Chagnon
Analyste expert en r glementation
Direction de l'encadrement des interm diaires
Autorit  des march s financiers
418-525-0337, ext 4815 and
1-877-525-0337
gerard.chagnon@lautorite.qc.ca

Jason Alcorn
Legal Counsel, Securities
Financial and Consumer Services
Commission (NB)
506-643-7857
jason.alcorn@fcnb.ca

Vida Lisa Mehin
Senior Legal Counsel
Capital Markets Regulation
British Columbia Securities Commission
604-899-6596 and
1-800-373-6393
vmehin@bcsc.bc.ca

Katharine Tummon
Director
Office of the Superintendent
of Securities, P.E.I.
902-368-4542
kptummon@gov.pe.ca

Navdeep Gill
Manager, Registration
Alberta Securities Commission
403-355-9043
navdeep.gill@asc.ca

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

Liz Kutarna
Deputy Director, Capital Markets
Securities Division
Financial and Consumer Affairs Authority of
Saskatchewan
306-787-5871
liz.kutarna@gov.sk.ca

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

Gary MacDougall
Superintendent of Securities
Department of Justice
Government of the Northwest Territories
867-873-7490
gary_macdougall@gov.nt.ca

Rhonda Horte
Deputy Superintendent
Office of the Yukon Superintendent
of Securities
867-667-5466
rhonda.horte@gov.yk.ca

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



IN THE MATTER OF THE *SECURITIES ACT*, S.N.B. 2004, c. S-5.5 (*Securities Act*)

AND

IN THE MATTER OF

*EXEMPTION FROM CERTAIN CRM2 PROVISIONS OF NATIONAL INSTRUMENT 31-103
REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*

Blanket Order 31-530

Subsection 208(1) of the *Securities Act*

Interpretation

Terms defined in the *Securities Act*, National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) and National Instrument 14-101 *Definitions* have the same meaning in this Instrument.

Background

1. Certain NI 31-103 provisions related to the implementation of Client Relationship Model – Phase 2 will come into effect on 15 July 2015 and 15 July 2016 (the **2015/2016 CRM2 Amendments**). Corresponding SRO provisions have been adopted.
2. Some registered firms have indicated they may experience difficulty in implementing the 2015/2016 CRM2 Amendments or corresponding SRO provisions by their effective dates.
3. Certain technical issues have also been identified relating to the delivery of information prescribed in the 2015/2016 CRM2 Amendments or corresponding SRO provisions.
4. Under section 9.3 [*exemptions from certain requirements for IIROC members*] of NI 31-103, a registered investment dealer that is an IIROC member (**IIROC Member**) is exempt from certain requirements in NI 31-103 if it complies with the corresponding IIROC provisions in Appendix G of NI 31-103 that are in effect.
5. Under section 9.4 [*exemptions from certain requirements for MFDA members*] of NI 31-103, a registered mutual fund dealer that is an MFDA member (**MFDA Member**) is exempt from certain requirements in NI 31-103 if it complies with the corresponding MFDA provisions in Appendix H of NI 31-103 that are in effect.

6. Amendments to sections 9.3 and 9.4 and Appendixes G and H of NI 31-103 are planned to provide relief for IIROC Members and MFDA Members from the 2015/2016 CRM2 Amendments if they comply with the corresponding SRO provisions applicable to them.
7. The SROs plan to make housekeeping amendments to conform the SRO provisions with certain of the relief granted under this order.
8. Under subsection 208(1) of the *Securities Act*, the Commission or Executive Director may grant an exemption from the Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

Order

The Commission orders, considering that to do so would not be prejudicial to the public interest,

9. That a registered firm, other than a member of IIROC or the MFDA in respect of its activities as an investment dealer or mutual fund dealer, is exempt
 - (a) from the following NI 31-103 provisions that come into effect on 15 July 2015 if it complies with the provisions beginning with client statements delivered for the period ending 31 December 2015:
 - (i) section 14.11.1 [*determining market value*];
 - (ii) section 14.14 [*account statements*] provided that for periods ending before 31 December 2015, it delivers statements under section 14.14 as that provision was in force on 14 July 2015;
 - (iii) section 14.14.1 [*additional statements*] except for paragraph 14.14.1(2)(g);
 - (iv) section 14.14.2 [*position cost information*] provided that if it discloses market value instead of security position cost
 - (A) under subparagraph 14.14.2(2)(a)(ii), it is not required to specify that the market value being disclosed is as of the transfer date, and
 - (B) under subparagraph 14.14.2(2)(b)(ii), it may disclose market value as at December 31, 2015 or an earlier date, using the same date and value for all similar clients of the firm;
 - (v) section 14.15 [*security holder statements*];
 - (vi) section 14.16 [*scholarship plan dealer statements*];

- (b) from the requirement in paragraph 14.14.1(2)(g) of NI 31-103 to identify securities that may be covered under an investor protection fund;
- (c) from the requirement in paragraphs 14.19(1)(e) and (h) of NI 31-103 to include market value information as at and since 15 July 2015 if instead
 - (i) an investment performance report is delivered that provides the information for the 12-month period ending 31 December 2016 and the included market value information is as at and since
 - (A) 1 January 2016, or
 - (B) a date earlier than 1 January 2016, if the same date is used for all similar clients, or
 - (ii) the included market value information is as at and since 15 July 2015 or an earlier date used for all similar clients;
- (d) from the requirement in paragraph 14.19(2)(e) of NI 31-103 to provide annualized total percentage return information if instead
 - (i) an investment performance report is delivered that provides the information for the 12-month period ending 31 December 2016, or
 - (ii) an investment performance report is delivered that provides the information
 - (A) for the period since the account was opened, if the account has been open for more than one year before the date of the report, or
 - (B) for the period since 15 July 2015 or an earlier date used for all similar clients, if the account was opened before 15 July 2015.

10. That an IIROC Member or MFDA Member is exempt from the NI 31-103 provisions specified in the table below if it complies with the corresponding SRO provisions that are applicable to it.

| NI 31-103 provision | IIROC provision | MFDA provision |
|---|---|---|
| section 14.11.1 [determining market value] and Form 31-103F1 which mandates use of "fair value" | Dealer Member Rule subsection 200.1(c) [definition of "market value"], and Definition (g) of the General Notes and Definitions to Form 1 [definition of "market value" for the purposes of regulatory | MFDA Rule 5.3(1)(f) [definition of "market value"] and Definitions to Form 1 <i>Financial Questionnaire and Report</i> [definition of "market value of a security"] |

| | | | |
|--|--|---|--|
| | | <i>reporting to IIROC]</i> | |
| section 14.14 [account statements] | | Dealer Member Rule subsection 200.2(d) [client account statements], and "Guide to Interpretation of Rule 200.2", Item (d) [client account statements] | MFDA Rule 5.3.1 [delivery of account statement] and MFDA Rule 5.3.2 [content of account statement] |
| section 14.14.1 [additional statements] | | Dealer Member Rule subsection 200.2(e) [report on client positions held outside of the Dealer Member], and section 200.4 [timing of sending documents to clients], and "Guide to Interpretation of Rule 200.2", Item (e) [report on client positions held outside of the Dealer Member] | MFDA Rule 5.3.1 [delivery of account statement] and MFDA Rule 5.3.2 [content of account statement] |
| section 14.14.2 [position cost information] | | Dealer Member Rule subsections 200.1(a) [definition of "book cost"], 200.1(b) [definition of "cost"], and 200.1(e) [definition of "original cost"], and subclauses 200.2(d)(ii)(F) and (H) [client account statements], and subclauses 200.2(e)(ii)(C) and (E) [report on client positions held outside of the Dealer Member] | MFDA Rules 5.3(1)(a) [definition of "book cost"], 5.3(1)(c) [definition of "cost"], 5.3(1)(h) [definition of "original cost"], and MFDA Rule 5.3.2(c) [content of account statement – market value and cost reporting] |
| section 14.17 [report on charges and other compensation] | | Dealer Member Rule subsection 200.2(g) [fee/charge report] and "Guide to Interpretation of Rule 200.2", Item (g) [fee/charge report] | Rule 5.3.3 [report on charges and other compensation] |

| | | |
|---|--|--|
| section 14.18 [investment performance report] and section 14.19 [content of investment performance report] | Dealer Member Rule subsection 200.2(f) [performance report] and "Guide to Interpretation of Rule 200.2", Item (f) [performance report] | Rule 5.3.4 [performance report] and MFDA Policy No. 7 Performance Reporting |
| section 14.20 [delivery of report on charges and other compensation and investment performance report] | Dealer Member Rule 200.4 [timing of sending documents to clients] | Rule 5.3.5 [delivery of report on charges and other compensation and performance report] |

11. For purposes of this order, "similar clients" means any of the following:
- (a) clients whose accounts or security positions were transferred together to a registered firm,
 - (b) clients whose accounts or security positions are on the same reporting system if a registered firm has more than one reporting system,
 - (c) other clients whose accounts or security positions would appear to a reasonable person to be similar in a way that relates to the recording or calculation of market value or position cost.
12. This order comes into effect on 15 July 2015.
13. The exemptions in subparagraphs (1)(a)(i) to (iii), (v) and (vi) of this order expire on 1 January 2016.
14. The exemptions in subparagraphs (1)(a)(iv) and paragraphs (1)(b) to (d) of this order expire on the coming into effect of amendments to NI 31-103 dealing with the same matters.
15. The exemptions in section (2) of this order expire on the date on which amendments to sections 9.3 and 9.4 and Appendixes G and H of NI 31-103 come into force providing exemptions for IIROC Members and MFDA Members that comply with corresponding SRO provisions that are applicable to them.

Dated at Saint John, New Brunswick, this 20th day of May 2015.

"Original signed by"

Kevin Hoyt
Executive Director of Securities