

**PROVINCIAL/TERRITORIAL COUNCIL Of MINISTERS
OF SECURITIES REGULATION (Council)
ANNUAL PROGRESS REPORT**
January 2013 to December 2013

BACKGROUND

Since its formation in 2004, the Provincial-Territorial Council of Ministers of Securities Regulation (Council) and the provincial and territorial securities regulators have made significant improvements by modernizing and harmonizing legislation, rules and regulations for Canada's securities markets and streamlining regulatory processes, including through the passport system. The move to a fully operational passport system in September 2009 resulted from unprecedented levels of co-ordination and consensus among provincial and territorial governments and the Canadian Securities Administrators (CSA) to streamline and improve securities regulation in Canada.

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

2013 DEVELOPMENTS AND COUNCIL NEXT STEPS

Canadian Securities Administrators 2013-16 Business Plan

In July, the CSA published a Business Plan for the period covering 2013 to 2016. The CSA Business Plan sets out the priorities the CSA members (including the Ontario Securities Commission) have committed to over the next three years. Securities regulators have identified initiatives in the following areas:

- retail investor protection;
- capital raising by small and medium sized enterprises and exempt market initiatives;
- shareholder democracy and protection;
- market regulation;
- enforcement effectiveness; and,
- passport system expansion.

The Council has endorsed the CSA 2013-16 Business Plan and committed to its timely implementation to further develop the effectiveness and modernization of the Canadian securities regulatory regime while protecting investors.

Agreement in Principle- Cooperative Capital Markets Regulatory System

On September 19, 2013, Ministers of Finance of Canada, Ontario and British Columbia agreed in principle to establish a cooperative capital markets regulatory system with one common regulator. The other provinces and territories have been invited to participate in the proposed cooperative capital markets regulatory system.

At its September 23, 2013 meeting, Council members (except Québec) agreed to conduct their own due diligence regarding their best path forward. Québec has formally rejected the federal government/British Columbia/Ontario cooperative capital markets regulator proposal.

Council Next Steps

The Council recognizes that there should be continuous improvements to the Canadian securities regulatory system.

The Council's priority is to maintain an innovative, competitive and flexible regulatory system that protects investors and fosters fair, efficient and transparent capital markets, in addition to enhancing the identification, management and reduction of systemic risks in Canada.

Going forward, the Council has agreed to continue to work toward establishing a cooperative provincial-territorial securities framework that will recognize and preserve provincial and territorial authority to regulate securities. Elements of the framework will include:

- a coordinated legislative process to maintain and enhance harmonized securities legislation and regulation, while preserving the flexibility to accommodate regional differences and innovation;
- improving the effectiveness of the Council;
- strengthening collaboration and information-sharing among all provincial and federal entities with a financial stability mandate to enhance the identification, management and reduction of systemic risks;
- improving administrative adjudication;
- improving administrative enforcement and the enforcement of criminal and quasi-criminal laws relating to the securities market; and
- strengthening provincial-territorial participation in international forums as part of Canadian delegations. The process for representation will be developed in consultation with the federal government.

The Council believes it is important that all provinces and territories work cooperatively together to further improve the efficiency and effectiveness of the Canadian securities regulatory system. The Council also believes that working together within a cooperative regulatory framework is in the best interests of all Canadians.

The Council is prepared to work with the federal government to improve the level of collaboration among all provincial and territorial governments and the federal government, and to identify opportunities for cooperation and coordination to further improve the already highly-regarded Canadian securities regulatory system while respecting each other's jurisdiction.

2013 ACCOMPLISHMENTS

2013 saw the continued coordination and cooperation among provinces and territories and their regulators to improve the Canadian securities regulatory system and to assist Canada in meeting its international commitments.

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

Progress of G-20 Commitments

Regulation of Credit Rating Organizations

- In April 2012, the Canadian securities regulators adopted National Instrument 25-101 *Designated Rating Organizations*, which sets out a regulatory framework for the oversight of credit rating organizations in Canada. The rule is consistent with international regimes for credit rating organizations.
- Most Canadian jurisdictions have already passed credit rating organization-related legislative amendments to support the regulatory regime for the oversight of credit rating organizations in Canada.
- The remaining jurisdictions (Prince Edward Island, Newfoundland and Labrador and Nunavut) plan to bring credit rating organizations-related legislative amendments forward by 2014 at the earliest.

Derivatives Regulation

- Legislative amendments will be required to implement the various G20 commitments on regulation of OTC derivatives which includes mandatory clearing of standardized OTC derivatives through a central counterparty, the trading of OTC derivatives transaction on exchanges or electronic platforms, where appropriate, and the reporting of all OTC derivatives transactions to an approved trade depository.
- In 2013, Saskatchewan passed (May) and Alberta introduced (December) derivative-related legislative amendments to allow for the regulation and oversight of OTC derivatives.
- Ontario (2010) and Manitoba (2012) have already passed derivatives-related legislative amendments. In Québec, derivatives trading is governed by a comprehensive, stand-alone *Derivatives Act*.
- The remaining jurisdictions plan to bring derivatives-related legislative amendments forward by 2014 at the earliest.
- Jurisdictions are committed to bring forward necessary derivative-related legislative amendments to implement a harmonized framework for derivatives regulation across Canada.

International Financial Reporting Standards (IFRS)

- Most Canadian jurisdictions have already passed IFRS-related amendments to support Canada's changeover to IFRS in 2011.
- The remaining jurisdictions (Prince Edward Island, Newfoundland and Labrador and Nunavut) have committed to bringing these legislative amendments forward in 2014 at the earliest.

Other Securities-Related Initiatives

Incorporation of Individual Representatives of Registered Dealers and Advisers

- Council Ministers are committed to moving forward with the incorporation project. The incorporation option, developed by working group of provincial and territorial government officials, gives individual financial representatives the flexibility to provide dealing and advising services to their clients through a corporation, without compromising investor protection.
- In November 2013, Québec introduced incorporation-related legislative amendments to give representatives of registered dealers or advisers the flexibility of providing dealing and advising services to their clients through a corporation but died on the order paper.
- In 2012, Saskatchewan passed (but has not yet proclaimed) incorporation-related legislative 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.
- Remaining jurisdictions plan to bring forward harmonized incorporation-related legislative amendments by 2014 at the earliest.

Canadian Public Accountability Board (CPAB)

- CPAB provides independent oversight of auditors of Canadian public companies and derives its authority from National Instrument 52-108 *Auditor Oversight*.
- Québec, British Columbia, Manitoba, New Brunswick Saskatchewan, Northwest Territories and Yukon have already passed CPAB-related legislative amendments to provide powers and protections to CPAB, with the oversight of CPAB based on a traditional recognition model in securities legislation, while Ontario passed stand-alone CPAB legislation in 2006.
- The remaining jurisdictions have committed to bring forward harmonized CPAB-related legislative amendments by 2014 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 2014.

Investor Protection

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

Secondary Market Civil Liability

- In May 2013, a five member panel of the Ontario Court of Appeal convened a hearing to hear three appeals dealing with the limitation period related to civil liability for secondary market disclosure under the Ontario *Securities Act*.
- In February 2014, a five member panel of the Ontario Court of Appeal determined that the parties and the court will not be subject to the limitation period while a plaintiff is seeking the required leave to launch a statutory action under the secondary market civil liability regime.
- Manitoba (2012) amended its securities legislation to address a problem associated with the calculation of the limitation period facing persons seeking to commence lawsuits on the basis of secondary market disclosure or misrepresentation. These 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.
- As a result of the recent Ontario Court of Appeal decision, securities regulators will determine whether legislative amendments will still be needed.

Point of Sale Disclosure Project

In June, the CSA finalized Stage 2 regulatory amendments of the phased (three stages) implementation of the Point of Sale (POS) 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 requires delivery of a Fund Facts disclosure document within two days of buying a mutual fund and permits the delivery of the Fund Facts document to satisfy the current prospectus delivery requirements under securities legislation. The effective date of the Fund Facts delivery requirement is June 13, 2014. The prospectus will continue to be available to investors upon request.
- Most Canadian jurisdictions have already passed legislative amendments to support Stage 2 of the POS disclosure project.
- The remaining jurisdictions (Prince Edward Island, Newfoundland and Labrador and Nunavut) plan to follow suit with Stage 2-related legislative amendments in 2014 at the earliest.

- 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.

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 Council annual progress reports, Council communiqués, and other relevant securities-related information can be obtained at www.securitiescanada.org.

Appendix: 2013 Canadian Securities Administrators Activity

2013	CANADIAN SECURITIES ADMINISTRATORS INITIATIVES
January	<ul style="list-style-type: none"> - Improved Scholarship Plan Disclosure: On January 10, 2013, the CSA announced the adoption of amendments to National Instrument 41-101 <i>General Prospectus Requirements</i> and related form to provide investors with enhanced disclosure about scholarship plans by introducing new, tailored prospectus requirements. The new scholarship plan disclosure regime features a “Plan Summary” which is a short, plain language disclosure document designed to provide investors with key information in a simple, accessible and comparable format. The amendments came into force across Canada on May 31, 2013.
February	<ul style="list-style-type: none"> - Prospectus Rules Improvements: On February 28, 2013, the CSA announced amendments to National Instrument (NI) 41-101 <i>General Prospectus Requirements</i>, NI 44-101 <i>Short Form Prospectus Distributions</i>, NI 44-102 <i>Shelf Distributions</i>, NI 81-101 <i>Mutual Fund Prospectus Disclosure</i>, and related policies. The amendments are in response to user feedback and the CSA’s experience with the prospectus rules. These amendments are intended to clarify, modify or eliminate aspects of the prospectus rules to make the process more streamlined and accessible to users. The amendments came into force across Canada on May 14, 2013.
March	<ul style="list-style-type: none"> - Proposed Greater Transparency for Significant Holdings of Issuers’ Securities: On March 13, 2013, the CSA published for comment proposed changes to early warning reporting regime in Canada. The proposed changes are to Multilateral Instrument 62-104 <i>Take-Over Bids and Issuer Bids</i>, National Policy 62-203 <i>Take-Over Bids and Issuer Bids</i> and National Instrument 62-103 <i>Early Warning System and Related Take-Over Bid and Insider Reporting Issues</i>. The objective of the proposed changes is to provide greater transparency about significant holdings of issuers’ securities. The proposed changes include an early warning reporting threshold of five percent and disclosure of both increases and decreases in ownership of two percent or more of securities. The comment period ended June 12, 2013. - Disclosure Improvements Related to Costs and Performance of Investments: On March 28, 2013, the CSA published to National Instrument NI 31-103 <i>Registration Requirements, Exemptions and Ongoing Registration Obligations</i> and related companion policy. The amendments are designed to ensure that clients of registrants receive clear and comprehensive information about all applicable fees and remuneration paid to registrants. In addition, investment performance reports must be provided to investors on an annual basis. The amendments came into force on July 15, 2013 and will be phased-in over a three-year period.
April	<ul style="list-style-type: none"> - Proposal for Derivatives Market Registration and Regulation: On April 18, 2013, the CSA published for comment Consultation Paper 91-407 <i>Derivatives: Registration</i> which sets out the CSA’s recommendations on registration and regulation of market participants trading in derivatives. This is the sixth of a series of eight consultation papers that builds on the regulatory proposals contained in Consultation Paper 91-401 <i>Over-the-Counter Derivatives Regulation in Canada</i>. The comment period ended June 17, 2013.

CANADIAN SECURITIES ADMINISTRATORS INITIATIVES	
2013	
June	<ul style="list-style-type: none"> - Delivery of Fund Facts Document for Mutual Funds: On June 13, 2013, the CSA published amendments to National Instrument 81-101 <i>Mutual Fund Prospectus Disclosure</i> and related consequential amendments that will require the delivery of the Fund Facts document instead of the simplified prospectus to satisfy the prospectus delivery requirements. The initiative comes into effect across Canada on June 13, 2014.
October	<ul style="list-style-type: none"> - New Investor Education Tools for Investors: The CSA has added two new investor education resource tools to its website (http://www.securities-administrators.ca/). The new online CSA resources are <i>Check Before You Invest</i> and <i>Understanding Registration</i>.
November	<ul style="list-style-type: none"> - New Exemption Proposed for Distributions to Existing Security Holders: On November 21, 2013, securities regulators in British Columbia, Alberta, Saskatchewan, Manitoba, Québec, New Brunswick, Nova Scotia, Prince Edward Island, Yukon, Northwest Territories and Nunavut published for comment Multilateral CSA Notice 45-312 <i>Proposed Prospectus Exemption for Distributions to Existing Security Holders</i>. The proposed prospectus exemption would, subject to certain conditions, allow issuers listed on the TSX Venture Exchange to raise money by distributing securities to their existing security holders. The comment period ends January 20, 2014.
December	<ul style="list-style-type: none"> - Improvements to the National Registration Rule to Improve Compliance and Investor Protection: On December 5, 2013, the CSA published for comment amendments to National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> and related instruments. The proposed amendments range from technical adjustments to more substantive matters including limiting the activities that may be conducted under the exempt market dealer category of registration. The comment period ends March 5, 2014.