

## CSA NOTICE AND REQUEST FOR COMMENTS

### PROPOSED CONSEQUENTIAL AMENDMENTS TO REGISTRATION, PROSPECTUS AND CONTINUOUS DISCLOSURE RULES

#### RELATED TO NATIONAL INSTRUMENT 25-101 DESIGNATED RATING ORGANIZATIONS

##### 1. Introduction

The Financial and Consumer Affairs Authority of Saskatchewan (the Authority) is publishing the following proposed amendments for a 60 day comment period:

- Companion Policy 21-101CP *Marketplace Operation* (**21-101CP**)
- National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**)
- Form 31-103F1 *Calculation of Excess Working Capital* (**31-103F1**)
- Form 33-109F6 *Firm Registration* (**33-109F6**)
- National Instrument 41-101 *General Prospectus Requirements* (**NI 41-101**)
- National Instrument 44-101 *Short Form Prospectus Distributions* (**NI 44-101**)
- Form 44-101F1 *Short Form Prospectus* (**44-101F1**)
- Companion Policy 44-101CP *Short Form Prospectus Distributions* (**44-101CP**)
- National Instrument 44-102 *Shelf Distributions* (**NI 44-102**)
- Companion Policy 44-102CP *Shelf Distributions* (**44-102CP**)
- National Instrument 45-106 *Prospectus and Registration Exemptions* (**NI 45-106**)
- National Instrument 51-102 *Continuous Disclosure Obligations* (**NI 51-102**)
- National Policy 51-201 *Disclosure Standards* (**NP 51-201**)
- National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (**NI 81-101**)
- National Instrument 81-102 *Mutual Funds* (**NI 81-102**)
- Companion Policy 81-102CP *Mutual Funds* (**81-102CP**)
- National Instrument 81-106 *Investment Fund Continuous Disclosure* (**NI 81-106**)

(collectively, the **DRO Consequential Amendments**).

Other members of the Canadian Securities Administrators (CSA) have recently published the proposed amendments for comment.

The DRO Consequential Amendments are set out in the following appendices to this Notice:

- Appendix A – 21-101CP
- Appendix B – NI 31-103 and 31-103F1
- Appendix C – 33-109F6
- Appendix D – NI 41-101
- Appendix E – NI 44-101, 44-101F1 and 44-101CP

- Appendix F – NI 44-102 and 44-102CP
- Appendix G – NI 45-106
- Appendix H – NI 51-102
- Appendix I – NP 51-201
- Appendix J – NI 81-101
- Appendix K – NI 81-102 and 81-102CP
- Appendix L – NI 81-106

## 2. Background

On January 27, 2012, the CSA published a notice (the **January Notice**) regarding the adoption of National Instrument 25-101 *Designated Rating Organizations* (**NI 25-101**), related consequential amendments and National Policy 11-205 *Process for Designation of Credit Rating Organizations in Multiple Jurisdictions*, which came into effect on April 20, 2012. NI 25-101 imposes requirements on those credit rating agencies or organizations (**CROs**) that wish to have their credit ratings eligible for use in securities legislation by requiring them to apply to become a “designated rating organization” (**DRO**) and adhere to rules concerning conflicts of interest, governance, conduct, compliance and required filings (the **DRO Regime**). This regulatory framework is consistent with international regimes applicable to CROs.

In the January Notice, the CSA indicated that, following the implementation of NI 25-101 and the application for designation by interested CROs, the CSA would propose to make the DRO Consequential Amendments in order to implement the DRO Regime.

On April 30, 2012, the CSA announced the designation of DBRS Limited, Fitch, Inc., Moody’s Canada Inc., and Standard & Poor’s Rating Services (Canada) as DROs under applicable securities legislation, as contemplated under NI 25-101 (the **April Designation Orders**). The four rating agencies granted DRO status are in compliance in all material respects with U.S. federal securities laws applicable to a nationally recognized statistical rating organization (NRSRO). The April Designation Orders make each of the DROs subject to regulation under applicable Canadian securities legislation and provide a six month transition period to fully implement all requirements set out in NI 25-101. Once they have done so, the CSA expect to issue and announce amended and restated designation orders under the terms of NI 25-101.

## 3. Substance and Purpose of the DRO Consequential Amendments

Many investors and intermediaries rely on credit ratings when making investment decisions about debt securities and other structured products. Canadian securities legislation also includes a number of references to credit ratings. Some of these provisions permit different treatment based on the credit rating. For example, highly rated short-term debt securities can be distributed under an exemption from registration and prospectus requirements<sup>1</sup>, can be distributed by short-form prospectus<sup>2</sup>, are “qualified

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<sup>1</sup> See section 2.35 of NI 45-106.

securities”<sup>3</sup> for mutual funds and are eligible investments for money-market funds<sup>4</sup>. These provisions currently include references to “approved rating”, “approved credit rating”, “approved rating organization” and “approved credit rating organization”.

The DRO Consequential Amendments will replace these existing references to “approved rating organization”, and “approved credit rating organization” with “designated rating organization”. Similarly, the terms “approved rating” and “approved credit rating” will be replaced with “designated rating” and amended to include a rating provided by a DRO affiliate, another defined term in NI 25-101.

We are also publishing for comment a related consequential amendment to Item 7.9 of Form 44-101F1 *Short Form Prospectus* to clarify that the disclosure of an issuer’s relationship with a CRO is limited to the securities being distributed under a short form prospectus.

#### **4. Local Notices and Amendments**

Certain jurisdictions are publishing other information required by local securities legislation in Appendix M to this notice.

#### **5. Comments**

We request your comments on the DRO Consequential Amendments. Please provide your comments in writing by **December 31, 2012**. If you are not sending your comments by email, an electronic file containing the submissions should also be provided (Windows format, Word).

Please address your comments and submission to:

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Your comments will be distributed to the other participating CSA member jurisdictions.

Please note that comments received may be made publicly available and posted on the websites of certain other securities regulatory authorities.

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<sup>2</sup> See sections 2.3, 2.4 and 2.6 of NI 44-101.

<sup>3</sup> See the definition of “qualified security” in section 1.1 of NI 81-102.

<sup>4</sup> See the definition of “money market fund” in section 1.1 of NI 81-102.

We cannot keep submissions confidential because securities legislation in certain provinces requires that a summary of the written comments received during the comment period be published.

**October 26, 2012**