

**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 applications requesting exemptions from certain provisions of NI 31-103.

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 paragraph 7.1(2)(b) or paragraph 7.1(2)(c) of NI 31-103; and
- from the requirement under subparagraph 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](http://www.lautorite.qc.ca)

[www.albertasecurities.com](http://www.albertasecurities.com)

[www.bcsc.bc.ca](http://www.bcsc.bc.ca)

[www.msc.gov.mb.ca](http://www.msc.gov.mb.ca)

[www.gov.ns.ca/nssc](http://www.gov.ns.ca/nssc)

[www.nbsc-cvmnb.ca](http://www.nbsc-cvmnb.ca)

[www.osc.gov.on.ca](http://www.osc.gov.on.ca)

[www.sfsc.gov.sk.ca](http://www.sfsc.gov.sk.ca)

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

Paragraph 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 paragraph 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 rare for a trade in securities listed in paragraphs 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 paragraphs.

The securities listed in paragraphs 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 paragraph 13.2(2)(b) when they trade any other securities than those listed paragraphs 7.1(2)(b) and 7.1(2)(c) of NI 31-103.

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

As part of the know your client requirements, subparagraph 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 paragraph 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 subparagraph 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

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