CSA Staff Notice 31-333
Follow-up to Broker-Dealer Registration in the Exempt Market Dealer Category

February 7, 2013

Introduction
On September 2, 2011, the Canadian Securities Administrators (**CSA** or we) published CSA Staff Notice 31-327 *Broker-Dealer Registration in the Exempt Market Dealer Category* (**CSA Staff Notice 31-327**). On July 12, 2012, we published CSA Staff Notice 31-331 *Follow-Up to Broker-Dealer Registration in the Exempt Market Dealer Category* (**CSA Staff Notice 31-331**). CSA Staff Notice 31-331 introduced IIROC Notice 12-0217 *IIROC Concept Proposal – Restricted Dealer Member Proposal* (the **Restricted Dealer Member Proposal**). This notice provides a further update on broker-dealer registration in the exempt market dealer (**EMD**) category.

Substance and Purpose
The purpose of this notice is to inform FINRA firms currently conducting brokerage activities while registered in the EMD category or in the restricted dealer category that the Investment Industry Regulatory Organization of Canada (**IIROC**) does not intend to proceed with the Restricted Dealer Member Proposal, as detailed in IIROC Notice 13-0042 dated February 7, 2013 (the **IIROC Notice**). In the future, firms will need to conduct all brokerage activities through a full IIROC member firm.

Background
CSA Staff Notice 31-327 outlines our concerns about firms using the EMD category to conduct brokerage activities (trading securities listed on an exchange in foreign or Canadian markets) (**brokerage activities**). We also stated that we would examine the issue to ensure that appropriate regulatory requirements applied to all firms that were engaging in brokerage activities in Canada.

We are of the view that IIROC should regulate these firms because IIROC has rules that address the risks associated with brokerage activities. Therefore, on July 12, 2012 we published CSA Staff Notice 31-331 in tandem with the Restricted Dealer Member Proposal. The Restricted Dealer Member Proposal introduced a new class of IIROC Member, called a "Restricted Dealer Member", which was intended to migrate firms currently registered as EMDs or restricted dealers carrying out brokerage activities to IIROC membership.

Now that the 90-day comment period has concluded, IIROC is publishing the IIROC Notice. The IIROC Notice summarizes the comments received on the Restricted Dealer Member Proposal and discusses IIROC's intention not to proceed with the proposal.

We remain of the view that IIROC should regulate firms that conduct brokerage activities. Therefore, we intend to publish proposed amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) later in

2013 in order to prohibit EMDs from conducting brokerage activities (the **NI-31-103 Amendments**).

Next Steps
Based on the above, impacted firms need to consider the following:

- EMDs that are conducting brokerage activities may continue to conduct these activities until the NI 31-103 Amendments come into force, but they will thereafter be required to restrict their activities to those permitted by the EMD category after the NI 31-103 Amendments are effective; and

- restricted dealers that are conducting brokerage activities in accordance with the terms and conditions of their registration will have their registration and any related exemptive relief extended to the date the NI 31-103 Amendments are effective.

Impacted firms may wish to consider how they will conduct brokerage activities in the future. Options include transferring their brokerage activities to a Canadian incorporated IIROC firm, tailoring their activities to fit solely within the EMD category, or relying upon the international dealer exemption in section 8.18 of NI 31-103.

Questions

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