



CHAMBRE DE LA
SÉCURITÉ FINANCIÈRE

Montreal, June 20, 2007

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

c/o

Ms. Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
Stock Exchange Tower
800 Victoria Square, 22nd Floor
P.O. Box 246
Montreal, Quebec H4Z 1G3

Mr. John Stevenson
Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8

Re: **Consultation on the draft
Regulation 31-103 respecting
Registration Requirements**

Dear Sir or Madam,

The Chambre de la sécurité financière (the “CSF”) is pleased to respond to the Notice and Request for Comment dated February 20, 2007 (the “Notice”) published by the Canadian Securities Administrators (the “CSA”) and relating to

the draft *Regulation 31-103 respecting Registration Requirements* (the “**Regulation**”) and the draft *Policy Statement to Regulation 31-103 respecting Registration Requirements* (the “**Policy Statement**”), which Regulation is intended to harmonize registration requirements across all CSA jurisdictions.

The CSF is a self-regulatory organization recognized in Québec under *An Act respecting the distribution of financial products and services* (R.S.Q., chapter 9.2) (the “**Distribution Act**”). It oversees more than 30,000 members¹ by regulating their ethics and professional development² and administering a disciplinary process intended to prevent wrongdoing which is detrimental to the public. It does not have direct authority over firms, which are governed directly by the *Autorité des marchés financiers* (the “**AMF**”) under the *Distribution Act*.

As part of this general consultation on the Regulation and the Policy Statement, the CSF would like to comment on certain issues specific to its current mission. Those issues concern the following topics, in the order in which they are discussed in the Notice:

1. SRO membership (Part 3 and the section *Changes to Regulatory Framework in Québec*);
2. Fit and proper requirements (Parts 4 and 7);
3. Conduct rules (Part 5);
4. Certain problems related to registration in more than one category (collectively, the “**Authorizations**”).

However, we will follow with interest the results of this request for comments to find out what comments others have made so that we will be in a position to act on them if, as the CSF has requested, the responsibilities of a Quebec group savings SRO are entrusted to it, subject to forming a partnership with the *Mutual Fund Dealers Association* (the “**MFDA**”).

1.

¹ The members are group savings representatives, financial planners, representatives in individual insurance of persons, and representatives in group insurance of persons, in scholarship plans and in investment contracts, who do not act for a dealer with an unrestricted practice or a discount broker within the meaning of the *Securities Act*.

² Except for financial planners.

SRO membership

On April 23, 2007 the CSF filed a written submission with the AMF (the “**Submission**”) in response to the AMF’s request for comments relating to the SRO oversight of Québec’s group savings sector, a copy of which is attached hereto. The Notice refers to this preliminary consultation by the AMF.³ The Submission is available in French and English on the CSF web site at www.chambresf.com. The following comments and recommendations should therefore be read in conjunction with and are in addition to those made in the Submission.

2. Fit and proper requirements

The Regulation and the legislative changes proposed by the CSA would extend the permanent registration concept throughout Canada.

The Regulation sets out the fit and proper requirements for individual and firm registration, based on parameters focussed on proficiency, integrity and solvency.⁴ If a registrant no longer meets the fit and proper requirements, he or she will be subject to action by the AMF or the relevant authority.⁵

Based on the successful experience in Québec, where permanent registration has existed under the *Securities Act* (R.S.Q., chapter V-1.1) for several years, the CSF recommends that professional development be added to the proficiency requirements to be included in the rules of the relevant SROs.⁶

This requirement warrants being incorporated into the registration regime under Regulation 31-103, as completed by the regulation to which SROs subject their members, not only because the continuous acquisition of knowledge it imposes on representatives provides clients with better assurance because they will obtain high-quality service, but also because this requirement is a natural attribute of any permanent registration regime as it helps prevent certain conduct which is detrimental to clients.

Indeed, under a permanent registration regime, compulsory professional development improves the knowledge and skills of representatives and, as a result, their entire professional practice. This improvement reduces the risk of clients being poorly served or advised and thus makes it easier to achieve the

³ See Part 4 and the section entitled “*Changes to Regulatory Framework in Québec*” (at p. 22) of the Notice.

⁴ Notice, Part 4, at p. 12.

⁵ Ibid, Part 7, at pp. 18-19.

⁶ See Notice, at p. 12.

goal of investor protection underlying registration and the conditions for continuing registration, without unduly taxing regulatory resources.

The effect of reducing derogations from the requirement to act with skill, as a result of compulsory professional development, also allows SROs and, indirectly, securities authorities, to mobilize less resources for these types of cases and to concentrate them on other enforcement situations requiring more intervention.

Since December 2006, the CSF has applied a new *Regulation respecting compulsory professional development*,⁷ which is essentially aimed at improving the knowledge and professional skills of our members in all sectors.⁸ The professional development system it sets up is based on the concept of a "professional development unit", or PDU, which corresponds to one hour of training recognized by the CSF and the requirement that members accumulate, for each 24-month period, 10 PDUs in subjects pertaining to standards, ethics or business conduct, 10 PDUs from among general subjects,⁹ and 10 PDUs in each of the sectors under our supervision.¹⁰

The subjects specific to brokerage of group savings plans, investment contracts and scholarship plans are the following:

- i. client counselling;
- ii. underwriting or risk management;
- iii. retirement and estate planning;
- iv. trusts;
- v. segregated funds;
- vi. strategy of wealth accumulation and use;
- vii. scholarship plans;
- viii. concepts of investment contracts;

⁷ The text is attached for the benefit of CSAs other than the AMF.

⁸ This Regulation applies to our members who carry on business in the following sectors: insurance of persons, group insurance of persons, group savings plan brokerage, investment contract brokerage and scholarship plan brokerage.

⁹ "General subjects" means: (1) management of a financial services firm; (2) Civil Code; (3) accounting; (4) economics; (5) finance; (6) business planning for clients; (7) business planning for representatives; (8) financial planning; (9) tax planning; (10) actuarial sciences; (11) legislative environment; (12) intestate and testamentary successions.

¹⁰ For example, a member who holds a group savings brokerage certificate must accumulate 10 PDUs in general subjects, 10 PDUs in subjects pertaining to compliance and 10 PDUs in subjects relating to group savings brokerage, for a total of 30 PDUs. A member who holds a group savings brokerage certificate and an insurance of persons certificate, i.e. two separate sectors, must accumulate 10 PDUs in general subjects, 10 PDUs in subjects pertaining to compliance, 10 PDUs in subjects relating to group savings brokerage and 10 PDUs for the area of insurance of persons, for a total of 40 PDUs.

- ix. investment products;
- x. derivatives;
- xi. financial needs analysis;
- xii. deferred income plans;
- xiii. mutual funds;
- xiv. investor profile and asset allocation;
- xv. investment strategy;
- xvi. guaranteed investment certificates and linked notes.

We believe that the adoption of a similar approach would complement the framework model promoted by the CSA and the Regulation.

In our view, the compulsory professional development requirements, promoted with great success by the CSF, represent the benchmark with which the harmonization of fit and proper requirements in the rest of Canada should be aligned, for the benefit of all Canadian consumers of group savings products.

Furthermore, although this issue does not relate to compulsory professional development, with respect to the rules relating to fit and proper requirements and career start-up proficiency requirements, the CSF would like the examinations to be given and administered by organizations fully independent of the industry.

3. Conduct rules

In the new regime, registrants will be subject to conduct rules intended to ensure their integrity, and will be accountable for their securities activities.¹¹

In this regard, the Regulation harmonizes the requirement for representatives to act with loyalty, honesty and in good faith, in their clients' best interests¹², and proposes new mechanisms (including the registration of heads of compliance) to encourage the emergence of a "*culture of compliance*" in firms.¹³ It will essentially be up to SROs to adopt several of these conduct rules based on the principles of the client relationship model—principles which are already recognized but for which compliance has traditionally been ensured by prescriptive rules.

The CSF fully agrees with this approach, which it has tested with the rules of ethics (its "**Code of Ethics**") that it has enforced for several years to control the business conduct of representatives in individual or group insurance of persons and financial planners.

¹¹ Notice, p. 12.

¹² Ibid, at p. 4.

¹³ Ibid, at p. 9.

The Code of Ethics, in the same manner as the *Regulation respecting the rules of ethics in the securities sector* adopted by the AMF,¹⁴ is based on principles that, due to their civil law approach, allows a dynamic enforcement which can adapt to new products and practices which regularly emerge in the financial services industry.

The constant adaptation of the standards and criteria for applying these principles is based on the action of our disciplinary justice structures which, through their decisions, establish precedents which allow the evolution of the profession to be followed and guide the compliance efforts made by our members. This approach is clearly preferable to a more burdensome and less flexible regulatory procedure, from the points of view of both the regulatory organization and those governed by it.

We therefore recommend that the rules of ethics governing registrants, as well as the procedures which will be set up to establish them, be based more on principles than on rules enacted from time to time, given the success of this type of supervision in group savings.

4. Problems with registration in more than one category

Regardless of the legislative adjustments which may be required to facilitate greater consistency of the rules applicable to entities and individuals associated with the distribution of group savings products in Canada, the fact remains that these measures should not challenge or interfere with the established practice of registration in more than one category, which allows a single firm or individual to carry on business in several sectors.

In Québec, registration in more than one category has been recognized for members of the CSF for 15 years in its current form, and its application has shown that, in some cases, the public could be better served, and its wealth increased more easily and at a lower cost, when the client can obtain advice, services and products in several classes of financial assets through a single, qualified representative.

Following the example of the deregulation of the financial institutions which create the products distributed by our members, their right to register in more than one sector has thus been set in stone to a certain extent in Québec, and the CSF is pleased to note that this principle seems to have been kept in mind in

¹⁴ Revised Regulations of Québec, chapter D-9.2, Regulation 1.1.2.

drafting the Regulation, although the Notice limits itself to referring to registration in more than one category only in the securities sectors.¹⁵

The CSF believes that the CSA should go further and ensure that this principle is similarly applied on an intersectoral basis, in order to adequately reflect the industry structure for the intermediation of products and services au Canada.

In its Submission, the CSF noted that its multidisciplinary mission represented an asset to be protected in the context of the implementation of a securities passport regime and in particular the Regulation, as it is the only possible response to registration in more than one category in securities allowing a person to act in other financial securities areas.¹⁶

Registration in more than one category has gained acceptance for the multidisciplinary nature of the activities of firms and their representatives. In this context, the enforcement of Regulation 31-103 could lead to problems if group savings registrants in Québec are supervised by a single-sector SRO.

For example, it is clear that a possible duality of single-discipline SROs (such as the MFDA for group savings and the CSF for the other sectors of financial security), not acting jointly in the manner we described in our Submission to the AMF, would pose very serious and costly problems in terms of the consistency of rules and the oversight of the various areas in which the same firms and representatives operate. These difficulties will be seen in terms of regulatory fees to be paid for registration in more than one category in securities and under the *Distribution Act*, standardization, consistency of enforcement measures and coherence of disciplinary sanctions for breaches of conduct rules.¹⁷

Here again, we believe that, if the CSF is the SRO recognized under the principles put forward by the Regulation and the registration reform for CSAs in general, the fact that we are multidisciplinary will allow us to alleviate these types of problems by acting consistently in all sectors, from the insurance of persons to group savings and financial planning. We believe that this ability to act in all sectors is necessary to help improve effectiveness and better control oversight costs.

¹⁵ "Firms carrying on more than one type of activity requiring registration will generally be required to obtain registration in each of the applicable categories": see p. 6 of the Notice.

¹⁶ We are referring to scholarship plans and investment contracts (which, along with group savings, represent the securities sectors currently governed by the *Distribution Act*), individual insurance of persons, group insurance of persons and financial planning.

¹⁷ A disciplinary sanction imposed by the CSF for the breach of its group savings integrity rules, for example, currently provides better protection of the public because at the same time it can put in issue the right of the person sanctioned to practice in the other sectors of financial security.

With respect to supervision of the CSF as an integrated SRO, the AMF is in a very good position to provide it, as it is also a multidisciplinary body in its capacity as the authority overseeing and controlling Quebec's entire financial sector.

We thank the CSA for giving the CSF the opportunity to comment on these important issues and remain,

Yours very truly,

A handwritten signature in black ink, appearing to read 'Luc Labelle', written in a cursive style.

Luc Labelle, M.Sc.
Executive Vice-President

SCHEDULE

**REGULATION OF THE CHAMBRE DE LA SÉCURITÉ FINANCIÈRE
RESPECTING COMPULSORY PROFESSIONAL DEVELOPMENT**

DIVISION I

SCOPE AND INTERPRETATION

1. This Regulation applies to all representatives, whether or not they are independent, who hold a certificate issued by the Autorité des marchés financiers authorizing them to practise in any of the following sectors, including the classes thereof provided for in the Regulation respecting the issuance and renewal of representatives' certificates, adopted by the Autorité des marchés financiers by Resolution 99.07.08 dated 6 July 1999:
 - (1) insurance of persons;
 - (2) group insurance of persons;
 - (3) group savings plan brokerage;
 - (4) investment contract brokerage;
 - (5) scholarship plan brokerage.

For the purposes of this Regulation, the sectors listed in subparagraphs 3 to 5 of the first paragraph constitute a single sector.

2. In this Regulation, the term "professional development unit" or "PDU" means one hour of training recognized by the Chambre de la sécurité financière.

DIVISION II

TRAINING

§1 Period, frequency and content of training

3. As of 30 November 2006, a representative referred to in section 1 must, between that date and 30 November 2007, and for any 24-month period thereafter, take part in training activities recognized by the Chamber in

accordance with Division III consisting of at least 10 PDUs from among the following general subjects:

- (1) management of a financial services firm;
- (2) Civil Code;
- (3) accounting;
- (4) economics;
- (5) finance;
- (6) business planning for clients;
- (7) business planning for representatives;
- (8) financial planning;
- (9) tax planning;
- (10) actuarial sciences;
- (11) legislative environment;
- (12) intestate and testamentary succession.

During that period, the representative must also take part in training activities recognized by the Chamber having the following additional PDUs:

- (1) 10 PDUs in subjects pertaining to compliance with standards, ethics or business conduct; and
- (2) 10 PDUs in subjects specific to each sector listed in the first paragraph of section 1, for each sector for which the representative is authorized to act under the certificate:
 - (a) insurance of persons:
 - i.* client counselling;
 - ii.* underwriting or risk management;
 - iii.* disability insurance;
 - iv.* life insurance;
 - v.* trusts;
 - vi.* risk management in insurance of persons;
 - vii.* underwriting in insurance of persons;
 - viii.* accident or health insurance plans;
 - ix.* segregated funds;
 - x.* strategy of wealth accumulation and use;
 - xi.* financial needs analysis;
 - xii.* deferred income plans;
 - xiii.* mutual funds;
 - xiv.* investor profile and asset allocation;

- xi.* investment strategy;
- xvi.* retirement and estate planning;
- xvii.* guaranteed investment certificates and linked notes;

(b) group insurance of persons:

- i.* client counselling;
- ii.* underwriting or risk management;
- iii.* disability insurance;
- iv.* life insurance;
- v.* group insurance and group pension plans;
- vi.* benefits and underwriting in group insurance and group annuity plans;
- vii.* setting up a group insurance and group annuity program;
- viii.* preparing a rate schedule and analyzing group insurance and group annuity quotes;
- ix.* preparing a group insurance and group annuity recommendation;
- x.* public and private plans;
- xi.* processing group insurance claims;
- xii.* mutual funds;
- xiii.* guaranteed investment certificates and linked notes;

(c) group savings plan brokerage, investment contract brokerage and scholarship plan brokerage:

- i.* client counselling;
- ii.* underwriting or risk management;
- iii.* retirement and estate planning;
- iv.* trusts;
- v.* segregated funds;
- vi.* strategy of wealth accumulation and use;
- vii.* scholarship plans;
- viii.* concepts of investment contracts;
- ix.* investment products;
- x.* derivatives;
- xi.* financial needs analysis;
- xii.* deferred income plans;
- xiii.* mutual funds;
- xiv.* investor profile and asset allocation;
- xi.* investment strategy;
- xvi.* guaranteed investment certificates and linked notes.

§2 Variation in the training requirement

4. Representatives referred to in section 1 who are issued a certificate between 30 November 2006 and 30 November 2007, or in any subsequent 24-month period, must accumulate PDUs from among the subjects listed in subdivision 1 in the proportion that the number of full months for which the certificate has been held is of 24 months.

Despite the foregoing, representatives who have held a certificate for less than 6 months are exempt from the requirements of subdivision 1.

Representatives who are authorized to act in a new sector during a period referred to in the first paragraph, in addition to the sector in which they are authorized to act under the certificate, are deemed to comply with the requirements of subdivision 1, but only for that new sector.

5. Representatives who are absent or on sick leave or accident leave, or for family or parental reasons, are exempt from the requirements of subdivision 1 to the extent and subject to the following conditions:
 - (1) the absence or leave is of a duration of not less than four consecutive weeks; and
 - (2) the representatives make a written request to the Chamber to avail themselves of the exemption and submit a supporting document or the medical certificate required for entitlement to the absence or leave.

Subject to subparagraphs 1 and 2, for the purposes of this section, the causes and terms of absences or leaves are those set out in Divisions V.0.1 and V.1 of Chapter IV of the Act respecting labour standards (R.S.Q., c. N-1.1).

Representatives must inform the Chamber in writing as soon as the absence or leave has ended and comply with the requirements of subdivision 1. They must then accumulate PDUs in the proportion that the number of full months in the period in which they were not absent or on leave is of 24 months.

6. Representatives who were suspended or struck off the roll or whose certificate was cancelled or revoked pursuant to a decision of the disciplinary committee of the Chamber or whose certificate is revoked,

suspended, not renewed or included conditions imposed by the Autorité des marchés financiers cannot give training activities recognized by the Chamber or earn PDUs as a trainer, instructor or facilitator of those activities.

§3 Awarding and assignment of PDUs

7. Representatives who act as trainers, instructors or facilitators of a training activity recognized by the Chamber are entitled, only once for the activity, to double the number of PDUs awarded for the activity.

8. Representatives who, during the period referred to in subdivision 1, took part in training activities recognized by the Chamber consisting of more PDUs than required under subparagraphs 1 and 2 of the second paragraph of section 3, may count the excess PDUs under general subjects but only during that period. Such representatives cannot count the excess PDUs accumulated in the general subjects listed in subdivision 1 under a subject pertaining to compliance with standards, ethics or business conduct or a specific subject.

§4 Notice from the Chamber

9. At the latest within 30 days before the end of the period referred to in subdivision 1, the Chamber must send a notice to each representative who has not accumulated the required number of PDUs and inform the representative of the consequences, set out in sections 118.1 and 126 of the Regulation respecting the issuance and renewal of representatives' certificates, for failure to take part in training activities.

10. Within 30 days after the end of the period referred to in subdivision 1, the Chamber must send a notice to each representative who has not accumulated the required number of PDUs and inform the representative of the consequences, set out in sections 118.1 and 126 of the Regulation respecting the issuance and renewal of representatives' certificates, for failure to take part in training activities.

The Chamber must inform the Autorité des marchés financiers when it sends the notice provided for in the first paragraph to a representative.

§5 Keeping and sending of documents

11. Representatives must keep the attendance vouchers or certificates of exam or test results issued to them by the person, organization or educational institution providing the training activities recognized by the Chamber, for a 24-month period following the end of the period referred to in subdivision 1.
12. During the period referred to in subdivision 1, representatives must, personally or through the firm for which they are acting or the independent partnership of which they are a partner or employee, send to the Chamber a paper copy of the attendance vouchers for the activities it recognized.

Despite the foregoing, representatives are exempt from the requirement under the first paragraph if they, or the firm for which they are acting or the independent partnership of which they are a partner or employee, send their attendance vouchers for the activities recognized by the Chamber to its technological address by means of its secured access. The representatives are then not required to send a copy of the vouchers, unless the Chamber so requires for data verification purposes, in which case paper copies must be provided within 30 days of the Chamber's request.

DIVISION III

RECOGNITION OF TRAINING ACTIVITIES

13. The Chamber recognizes the training activities related to the sectors listed in section 1 if the activities enable the following professional skills and knowledge to be developed:
 - (1) business development;
 - (2) technical analysis;
 - (3) client satisfaction;
 - (4) business strategies.

The Chamber also recognizes and awards PDUs for any activity provided by a person, organization or educational institution during which training pertains to products specific to the sectors listed in section 1, provided that the time allocated to the training does not exceed one-half of the total time of the activity.

14. A representative or a person, organization or educational institution wishing to have an activity recognized must apply for recognition to the Chamber not later than six months after the activity is held.

15. The application for recognition must include:
 - (1) a description of the training activity;
 - (2) the training procedure for the activity;
 - (3) a document explaining how the activity develops professional skills;
 - (4) if the application is submitted before the activity is held, the name and address of the person responsible for the activity;
 - (5) if the application is submitted by the representative after the activity is held, proof that the representative attended the activity;
 - (6) the method of assessing successful completion of the activity, if applicable;
 - (7) if the application is submitted after the activity is held by the person, organization or educational institution providing the activity, a list of participants; and
 - (8) the number of PDUs and the subject to which the training activity applies.

The person, organization or educational institution applying for recognition of a training activity for financial products must also produce a written undertaking to the effect that the duration and content of the training given to the representatives reflects the duration and content proposed to the Chamber.

16. The Chamber recognizes or refuses to recognize an activity within 45 days of receipt of the application. If the recognition is refused or the activity is recognized for fewer PDUs than requested, the Chamber must give reasons to the applicant.

17. The recognition of an activity is valid for 24 months. At the end of that period, a person wishing to renew the recognition must make a new application to the Chamber.

18. The person responsible for an activity must submit a new application for recognition to the Chamber if its content, duration or assessment procedures have been modified.

The Chamber may then maintain or terminate the recognition, or increase or decrease the number of PDUs awarded for the activity.

19. The Chamber may terminate recognition of an activity or increase or decrease the number of PDUs awarded to it if the Chamber becomes aware that the activity being provided is different from the activity that was recognized, or if the conditions set out in section 13 or 15 are not being met.

DIVISION IV

TRANSITIONAL AND FINAL

20. For the purposes of this Regulation, the Chamber recognizes PDUs accumulated by representatives for training activities taken between 1 January 2006 and the date of coming into force of this Regulation as if the activities had been taken on or after the latter date.
21. Despite section 3, between 30 November 2006 and 30 November 2007, a representative may replace up to 5 PDUs for training activities recognized by the Chamber in subjects pertaining to compliance with standards, ethics or business conduct by an equivalent number of PDUs in the other subjects.
22. This Regulation replaces the Regulation governing compulsory professional development of the *Chambre de la sécurité financière* approved by Order in Council 1171-99 dated 13 October 1999.
23. This Regulation comes into force on the fifteenth day following the date of its publication in the *Gazette officielle du Québec*.