

1.1.3 CSA Staff Notice 31-331 – Follow-up to Broker Dealer Registration in the Exempt Market Dealer Category



Canadian Securities
Administrators

Autorités canadiennes
en valeurs mobilières

CSA Staff Notice 31-331

Follow-up to Broker-Dealer Registration in the Exempt Market Dealer Category

July 12, 2012

Introduction

On September 2, 2011, 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)*. This notice is a follow-up to the CSA Staff Notice 31-327.

Substance and Purpose

The purpose of this notice is to introduce an Investment Industry Regulatory Organization of Canada (**IIROC**) Concept Paper published as IIROC Notice 12-0217 (the **IIROC proposal**).

Background

CSA Staff Notice 31-327 raised concerns with firms applying for registration, or registered, in the exempt market dealer (**EMD**) category that are conducting brokerage activities (trading securities listed on an exchange in foreign or Canadian markets) (**brokerage activities**). It stated that we would be examining this issue to ensure that appropriate regulatory requirements apply to all firms conducting brokerage activities.

Consultation

We conducted a survey of all EMD firms to determine the extent of these activities. We determined that it is primarily broker-dealer firms registered in the United States that are members of the Financial Industry Regulatory Authority (**FINRA**) that are conducting brokerage activities. We are of the view that IIROC should oversee these firms because IIROC rules and supervision govern exchange trading practices and address the risks associated with brokerage activities. Accordingly, we have been working with IIROC and have asked IIROC to consider a framework for the oversight of these firms.

IIROC Proposal

The IIROC proposal introduces a new class of IIROC Member, called a “Restricted Dealer Member”, which is intended to migrate firms currently registered as EMDs or restricted dealers carrying out brokerage activities to IIROC membership. Based on this proposal, firms would surrender their EMD or restricted dealer registration and apply for investment dealer registration as well as seek IIROC membership.

Next Steps

We look forward to reviewing any comments on the IIROC proposal. At the conclusion of the consultation period, IIROC may make changes to its by-laws and rules. We may also propose changes to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* to expressly limit the types of activities that EMDs can conduct.

Questions

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