

Canadian Securities Administrators

Strategic Plan 1999 - 2001

July 1999

Overview

The Canadian Securities Administrators (CSA) is comprised of the thirteen provincial and territorial securities regulatory authorities (SRAs) in Canada. Over several years, the CSA has established and continues to develop and administer the Canadian Securities Regulatory System (CSRS). As an informal body, the CSA functions through meetings of Commission Chairs held at regular intervals, meetings and ad hoc interactions between Executive Directors, and through working Committees, established by the Chairs and reporting to them, on issues of shared concern, matters of import, or initiatives Chairs have decided to pursue jointly. Funding and support resources are drawn from within Commission operating budgets on a voluntary basis.

The SRAs share a mandate of ensuring well-regulated markets which protect investors from unfair, improper or fraudulent practices while fostering fair, efficient capital markets within each of their jurisdictions. All the SRAs: register directly, or indirectly through self-regulatory organizations (SROs), individuals and companies who give advice about or trade in securities or exchange contracts; review prospectuses; monitor continuous disclosure documents; conduct compliance reviews of registrants; grant discretionary exemptions from registration and prospectus requirements; investigate possible violations of provincial securities laws; and commence proceedings before the Commission or applicable Provincial Courts of Justice.

In some jurisdictions, SRAs are self-funding agencies or crown corporations. In others, they operate as agencies of the provincial government under statute. Individual SRAs do some or all of the following: formulate policy; make rules; sit as an administrative tribunal in hearings on securities-related matters; and hear appeals from decisions made by the Executive Director and staff.

Purpose of the CSA

The purpose of the CSA is to give Canada a securities regulatory system that protects investors from unfair, improper or fraudulent practices and fosters fair, efficient and vibrant capital markets of the highest integrity. To that end, the CSA relies upon:

- , a sustaining commitment from all jurisdictions to the ongoing sharing of relevant resources, most particularly staff time
- , a commitment from Chairs, Executive Directors and senior Commission staff to effective consultation and consensus-building
- , willingness among all its members to participate in building the Canadian Securities Regulatory System (e.g., additional technological systems, training programs and business practices which support the CSA purpose)
- , effective coordination of international relations between CSA securities regulatory authorities and their counterparts in foreign jurisdictions

Strategic Goals

The following general goals have guided the CSA in the fulfilment of its purpose. It is proposed that they remain unchanged in the 1999/2001¹ plan period:

- , protect investors from fraudulent, abusive, and unfair practices in Canada's securities markets
- , foster the development of fair, efficient, dynamic and competitive securities markets that will provide investment opportunities and access to capital for the benefit of Canadians in all regions and sectors
- , maintain an efficient, effective, responsive and enforceable regulatory framework that serves and protects market participants in all jurisdictions of Canada and balances national harmonization with regional flexibility
- , ensure that Canada participates actively and effectively in international regulatory arrangements and organizations

The primary thrusts in fulfilment of these goals have been largely focused on "harmonizing" approaches to securities regulation and include:

- , building investor awareness, knowledge and competence through shared education initiatives
- , updating rules and policies for mutual funds
- , developing a "single-entry" prospectus and application filing and review system predicated on a functioning and effective mutual reliance system
- , jointly supervising national self-regulatory organizations
- , developing a "single entry" Canadian registration system based on a high-functioning mutual reliance system
- , moving toward a common regulatory approach to electronic and other alternative trading

¹April 1, 1999 to March 31, 2002

- systems (ATSs)
- , formulating options and alternatives for a Canadian integrated disclosure system

Progress has been achieved in developing common rules, policies, approaches and systems including the following:

- , regulation of alternative trading systems
- , creation of mutual reliance systems for review of applications for discretionary relief, prospectus review, and review of applications for registration of advisors and SRO dealers
- , establishment of a central electronic system for insider reporting
- , establishment of the System for Electronic Document Analysis and Retrieval (SEDAR)
- , harmonization of escrow rules for Initial Public Offerings
- , harmonization of hold periods across CSA jurisdictions
- , development of self-regulatory organizations
- , development of a shared training program for use by staff members at all SRAs
- , alignment of most individual Commission planning cycles and processes with that of the CSA
- , shared attention to and regular interchange on the Year 2000 challenge faced by all SRAs
- , open sharing of Commission Plans and reports in direct support of improved resource sharing and streamlined operations

Strategic Considerations and Key Challenges

While the individual plans of the SRAs clearly recognize challenges unique to their jurisdictions or their business development, there is a high level of congruity on the following challenges which need to be recognized and accommodated as the CSA goes forward.

Global Integration of Markets and the Rapid Pace of Technological Change

The business environment is increasingly subject to global influences, where firms are being serviced by integrated banking, insurance and securities conglomerates which operate worldwide. Technology is driving market innovation and facilitating the creation of increasingly more sophisticated financial products, trading techniques and strategies. Competition between markets has increased as services formerly provided locally can now be provided from any remote location -- regulated to Canadian standards or not -- using readily available and inexpensive technology and the Internet. Canadian exchanges are responding aggressively to the need to reorganize in the face of global competition.

Increasing Dominance of the Secondary Market and Rapid Growth of the Market for Investment Funds

Investor participation has increased dramatically in secondary markets. Investor participation in the investment funds sector is at record levels and long-term growth is expected to continue. This growth represents challenges to the abilities of all SRAs to effectively inform and protect market participants. Investors are becoming increasingly active in seeking information and education about investments.

Addressing Gaps in Financial Services Regulation

Relaxation of restrictions on the types of financial products offered by various providers has caused gaps in regulation. The CSA must develop a consistent position addressing the gaps and inequalities in regulation that have resulted from merging marketplaces.

Building a “Canadian Securities Regulatory System”, within Available Resources, which Reflects Local Concerns, Priorities and Legislation

Harmonization of regulatory and enforcement activities, with congruous mutual reliance systems, represents a fundamental “foundation” of the CSRS. Nonetheless, such a long-term vision is also largely dependent on finding effective responses to issues such as fee rationalization and harmonization, shared technology, alignment of enforcement and prosecutorial powers, as well as consistent and effective delegation and oversight of appropriate authorities to self-regulatory organizations.

Public Confidence in the Integrity of Canada’s Markets

Market participants and investors in all jurisdictions want regulators to provide clear rules, more accessible and user-friendly services, and faster response times. Investors are demanding a greater sense of confidence in the integrity of capital markets. Regulators are being expected to establish and maintain standards which ensure the appropriate training and conduct of investment advisors and other registrants. The quality of investor education, oversight and enforcement activities in all markets must be of a consistent standard and form if Canada is to have fair, efficient and effective markets in all regions and all sectors regulated by the CSA.

Development of Varying Business Structures for the Securities Regulatory Authorities

In light of political decisions beyond the scope of the SRAs, various approaches are being taken to the structures and forms of member Commission operations. Self-funding SRAs share the common challenges of building effective operations managed to a form of “bottom-line” while those not self-funding confront the challenges of resourcing and management inherent in the operations of government agencies. From a CSA perspective, this asymmetrical approach to Commission operations may tend to create a significant gap between the “large” SRAs-- whose activities are wide-ranging and holistic-- and the “small” SRAs, forced by budget constraints to concentrate their resources on specific niches and/or activities. Moreover, harmonization of fee structures and effective contribution to, and sharing of, CSA initiatives becomes increasingly problematic.

A Vision for the Future

In 2001, the CSA and its member SRAs will be, and will be seen by their constituents to be, providing:

- , one-stop regulation and the ability to deal with one regulatory regime while accommodating local concerns, priorities and issues
- , demanding and fair supervision of self-regulatory bodies which actively seeks their involvement in meeting our mutual mandates
- , an important “resource” for market participants who understand the value of participating in a well-regulated marketplace
- , the opportunity for aware, knowledgeable investors to make informed choices, confident in the integrity of the markets we regulate
- , “good value”, as a knowledgeable and professional organization, with fees that are understandable and justifiable
- , aggressive, tenacious and fair enforcement activities which maintain investor and market confidence in, and respect for, the regulatory system
- , continuous development of appropriate, internationally recognized regulatory regimes for existing, alternative and emerging exchanges

CSA Strategies

The “core” CSA strategies for 1999/2001 are:

1. Continue to build and administer the Canadian Securities Regulatory System.
2. Build and sustain a high level of investor confidence and competence through a strong public voice and education initiatives.
3. Play an active and leading role in helping markets respond adequately to the Year 2000 issue.
4. Provide an effective regime for existing, alternative and emerging trading systems.
5. Provide an effective regulatory framework for supervising the distribution of investment products and advice.
6. Provide effective oversight of self-regulatory organizations.
7. Provide effective deterrence of abusive, unfair and fraudulent practices through aggressive and coordinated enforcement, harmonized legislative empowerment (where possible) and clear, compelling and effective administrative orders, civil remedies and quasi-criminal penalties.

Operationalizing The Plan - An Overview of Objectives and Initiatives

KEY STRATEGY	BUSINESS OBJECTIVES	INITIATIVES	EXPECTED OUTCOMES/SUCCESS MEASURES
1. Continue to build and administer the Canadian Securities Regulatory System.	, harmonize legislation, rules and policies where possible, expand regulatory presence and maximize cooperation between jurisdictions	, implement new take-over bid time periods , harmonize hold periods , complete development of harmonized approaches to escrow rules for IPOs , establish integrated disclosure system , develop shared point of view on legislation to reflect civil liability on continuous disclosure , finalize work of CSA Internet Committee	, legislation introduced spring '99/spring 2000 , rule in effect spring 2000 , rule in effect end '99 , concept proposal to CSA Chairs June '99 , legislation introduced fall 2000 , policies in effect December '99

KEY STRATEGY	BUSINESS OBJECTIVES	INITIATIVES	EXPECTED OUTCOMES/SUCCESS MEASURES
	<ul style="list-style-type: none"> , continue development of Mutual Reliance Review System (MRRS) 	<ul style="list-style-type: none"> , continue to build MRRS with streamlined regulatory requirements and review processes for exemption applications, prospectuses and registrations , participate in shared training approaches and programs , extend MRRS to continuous disclosure filings 	<ul style="list-style-type: none"> , MOU signed June '99 , prospectus policy effective summer '99 , applications policy effective summer '99 , registration policy effective end '99 , ongoing , effective December 2000

KEY STRATEGY	BUSINESS OBJECTIVES	INITIATIVES	EXPECTED OUTCOMES/SUCCESS MEASURES
	, continue to build and maintain common technology systems	, develop common system for electronic filing of insider trading information , develop common registration system with streamlined categories for registration and integrated database and user interfaces , sustain CSA technology cooperation on NED/SID/MICA/SEDAR	, system in place July 2000 , system in place 2001 , SEDAR working committee in place
	, develop coordinated and aligned approach to fees	, develop coordinated approach to, and strategy for, rationalization of fees	, strategy finalized September '99

KEY STRATEGY	BUSINESS OBJECTIVES	INITIATIVES	EXPECTED OUTCOMES/SUCCESS MEASURES
<p>2. Build and sustain a high level of investor confidence and competence through a strong public voice and education initiatives.</p>	<p>, develop ongoing strategies designed to give investors the knowledge and information to protect themselves</p>	<p>, directly educate the public about the regulatory process:</p> <p>, produce investor education materials under CSA logo</p> <p>, provide proactive communications to investors</p> <p>, participate in “Investor Education Week”</p> <p>, develop CSA Web Site</p>	<p>, focus groups input received and published</p> <p>, ongoing</p> <p>, ongoing</p> <p>, ongoing</p> <p>, CSA Web Site developed by end 2000</p>

KEY STRATEGY	BUSINESS OBJECTIVES	INITIATIVES	EXPECTED OUTCOMES/SUCCESS MEASURES
3. Play an active and leading role in helping markets respond adequately to the Year 2000 issue.	<ul style="list-style-type: none"> , support the integrity of the Canadian capital markets by providing leadership and support for: , testing of critical industry systems , proactive communication regarding the Y2K readiness of Canadian capital markets , development of contingency plans , ensure that registrants and reporting issuers meet disclosure standards 	<ul style="list-style-type: none"> , ensure all SRA systems and SEDAR are Y2K compliant , undertake testing programs to confirm Y2K readiness and existence of Y2K contingency plans , communicate readiness of registrants' Y2K preparedness to public , ensure regulatory contingency plan in place , conduct reviews to confirm level of registrant and reporting issuers compliance with Y2K disclosure requirements 	<ul style="list-style-type: none"> , full functionality on and after January 1, 2000 , testing program completed by summer '99 , majority of market participants have developed Y2K contingency plans , plan in place by fall '99 , ongoing

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<p>4. Provide an effective regime for existing, alternative and emerging trading systems.</p>	<ul style="list-style-type: none"> , develop a coordinated CSA response to address issues arising from existing, alternative and emerging trading systems , develop a coordinated response to address issues arising from the proposed restructuring of Canadian exchanges 	<ul style="list-style-type: none"> , develop regulatory approach for ATSS , conduct regulatory review of restructuring plans 	<ul style="list-style-type: none"> , draft rule published by July '99 , regulatory review of restructuring plans completed by fall '99
<p>5. Provide an effective regulatory framework for supervising the distribution of investment products and services.</p>	<ul style="list-style-type: none"> , develop a coordinated CSA solution to the regulation of distributors and distribution structures, including financial planners 	<ul style="list-style-type: none"> , develop common CSA definition and regulatory approach to "advice givers" , support the establishment and operationalization of MFDA , establish common proficiency standards for registrants holding themselves out as financial planners , finalize CSA Distribution Structures Committee recommendations 	<ul style="list-style-type: none"> , regulatory approach developed and adopted by mid-2000 , MFDA operational by March 2000 , rule published by June 30 '99 , CSA Distribution Structures Committee position paper published by July 31 '99

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	<ul style="list-style-type: none"> work with financial services regulators and others to ensure an appropriate regulatory regime applies to investment products and services 	<ul style="list-style-type: none"> work with other provincial financial services regulators through the Joint Forum of Financial Market Regulators to address key issues, including sharing information on dual licensees, harmonizing regulation of mutual funds and segregated funds and developing a regime for dually-licensed participants engaged in financial planning identify issues relating to application of securities legislation to investment activities of financial services providers and develop appropriate regulatory response 	<ul style="list-style-type: none"> workplan developed for initial Joint Forum projects action recommendations from mutual fund/segregated fund project delivered by winter '99/00 obtain required regulatory and governmental endorsement of proposal by summer/fall '99 proposed regulatory regime developed by spring 2000

KEY STRATEGY	BUSINESS OBJECTIVES	INITIATIVES	EXPECTED OUTCOMES/SUCCESS MEASURES
6. Provide effective oversight of self-regulatory organizations.	<ul style="list-style-type: none"> , establish harmonized criteria for recognition including terms, conditions, undertakings, by-law review and other oversight practices and an aligned approach to delegation , improve efficiency and effectiveness of resources allocated to SRO oversight activities 	<ul style="list-style-type: none"> , develop common oversight procedures , SRO by-laws implementing Hagg Committee Report , develop MFDA recognition process , undertake cooperative, uniform reviews and audits of IDA, MFDA and other SROs based on common and consistent expectations. , establish CSA SRO oversight committee 	<ul style="list-style-type: none"> , common principles of oversight of exchanges implemented , staff recommendations issued March '99 , recognition process completed by December 31 '99 , increase in resources allocated to SRO oversight activities , committee established April '99

KEY STRATEGY	BUSINESS OBJECTIVES	INITIATIVES	EXPECTED OUTCOMES/SUCCESS MEASURES
<p>7. Provide effective deterrence of abusive, unfair and fraudulent practices through aggressive and coordinated enforcement, harmonized legislative empowerment (where possible) and clear, compelling, and effective administrative orders, civil remedies and quasi-criminal penalties.</p>	<p>, within legal restrictions, ensure additional coordination between enforcement branches</p>	<p>, formalize and strengthen the structure and role of the CSA Enforcement Committee</p> <p>, develop and adopt harmonized approaches to enforcement settlements</p> <p>, develop informal MOU or protocol between CSA members governing procedures on interjurisdictional enforcement issues</p> <p>, populate National Enforcement Database</p>	<p>, significant number of cases taken to prosecution</p> <p>, harmonized settlement approaches adopted by mid- '99</p> <p>, MOU/protocol adopted by end '99</p> <p>, ongoing</p>

KEY STRATEGY	BUSINESS OBJECTIVES	INITIATIVES	EXPECTED OUTCOMES/SUCCESS MEASURES
	<ul style="list-style-type: none"> encourage harmonization of legislation at procedural level 	<ul style="list-style-type: none"> develop list of “necessary powers” so that administrative enforcement powers are consistent progress to the point where all SRAs are invested with power to prosecute Securities Act offences raise level of awareness by other law enforcement agencies of the need to deal with securities-related criminal offences 	<ul style="list-style-type: none"> list developed by end ‘99 appropriate deterrence for offenders (including incarceration) from criminal courts ongoing