

Canadian Securities Administrators Report on the Progress of their Initiatives

At their last quarterly meeting held in St. John's, Newfoundland and Labrador, securities regulators discussed the progress of important initiatives for the Canadian marketplace. The CSA endeavours to provide harmonized regulation and streamlined processes while responding effectively to current and emerging market issues. These are the major initiatives and their status.

Harmonized Rule for Prospectus and Registration Exemptions (National Instrument 45-106)

We are developing harmonized rules in key areas, which can be adopted under current legislation. We expect to publish for comment a harmonized rule for prospectus and registration exemptions by the end of the year. This initiative is part of the ongoing harmonization efforts of the CSA and is consistent with the passport system described in the Memorandum of Understanding agreed to by some of the provincial and territorial Ministers on September 30.

Canadian Uniform Securities Transfer Act (USTA)

This is a project affecting the holding, transfer and pledging of securities. The proposal is to develop and implement a uniform provincial *Securities Transfer Act* modelled on Revised Article 8 of the Uniform Commercial Code in the U.S. The proposed law received the approval of the Uniform Law Conference of Canada at its annual conference in Regina on August 26, 2004. CSA members are discussing with governments plans for presentation of the USTA to provincial legislatures.

National Registration System Project (National Instrument 31-101)

We plan to establish a harmonized system for registration of securities firms and representatives. Investment dealers, mutual fund dealers, unrestricted advisors and the individuals associated with these organizations will be able to register in more than one jurisdiction by meeting the requirements of their home province. We expect to implement the system in April 2005.

This initiative is part of the ongoing harmonization efforts of the CSA and is consistent with the passport system described in the Memorandum of Understanding agreed to by some of the provincial and territorial Ministers on September 30.

Disclosure of Corporate Governance Practices (National Instrument 58-101/National Policy 58-201)

Earlier this year, two groups of CSA members published for comment differing proposals to require reporting issuers to provide more disclosure about their corporate governance practices. Based on comments received, we have developed a national proposal that includes elements of both of the earlier proposals.

We published a revised instrument and policy for public comment on October 29, with the objective of having new corporate governance disclosure requirements effective for spring 2005 annual meetings.

Illegal Insider Trading

Last year, CSA published a task force report called "Illegal Insider Trading in Canada: Recommendations on Prevention, Detection and Deterrence". The recommendations reflect the best practices of foreign jurisdictions and initiatives unique to Canada. The report's recommendations seek to increase the effectiveness of regulatory efforts against illegal insider trading on Canadian equities markets in three ways. First, they propose measures to prevent leakage of and trading on material information prior to general dissemination. Second, they propose better mechanisms to detect illegal insider trading through market surveillance, data-mining, inter-agency information-sharing and handling of traditional tips and complaints.

Third, they propose stronger deterrents to illegal insider trading through legislative and administrative changes to streamline administrative action and criminal and quasi-criminal prosecution.

The CSA has accepted most of the report's recommendations, several of them in modified form, and is continuing to review several others. Some recommendations have already been implemented and others will be implemented between now and March 2007. The following are some of the key initiatives that will be undertaken:

- Working with professional bodies and financial institutions regulators to develop best practices for information containment for law firms, accounting firms, and banks (which regularly deal with material information not disclosed to the public);
- Introduce a national rule or policy to provide guidelines to registrants for policies and procedures concerning undisclosed material information;
- Strengthening the “culture of compliance” practices for market intermediaries such as brokers and dealers;
- Denying or limiting access to Canada’s markets through foreign jurisdictions with unsatisfactory regulatory regimes;
- Requiring exchanges to disclose the volume of trading by insiders at the end of each trading day; and
- Enhancing coordination among exchanges monitoring trading of inter-listed securities.

We will regularly update the public on the progress of these very important initiatives for the integrity of Canadian markets.

Income Trusts Project (National Policy 41-201)

Last year CSA published for comment a proposed policy to provide guidance to market participants about the disclosure in prospectuses and in continuous disclosure documents for income trusts and other indirect offerings. The policy is intended to ensure that investors receive adequate disclosure to make informed investment decisions about this type of issuer. The CSA expects to publish the final version of the national policy in the next few weeks.

Streamlined Offering Requirements (National Instrument 44-101)

The CSA is proposing changes to the short-form prospectus rules to eliminate duplication and inconsistencies with the new continuous disclosure rules adopted earlier this year and to make the streamlined offering process available to most reporting issuers. The proposed changes will more fully integrate the disclosure regimes for the primary and secondary markets, address ambiguities in the current regime and significantly broaden the eligibility requirements for the short-form prospectus system. The CSA expects to publish the proposed improvements for comment by the end of the year.

The CSA is the council of the securities regulators of Canada's provinces and territories. It coordinates and harmonizes regulation for the Canadian capital markets in order to protect investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets.

More information on the CSA is available at www.csa-acvm.ca.