



Transition Plan for the Canadian Securities Regulatory Authority

July 12, 2010



CANADIAN SECURITIES TRANSITION OFFICE

LE BUREAU DE TRANSITION CANADIEN
EN VALEURS MOBILIÈRES

July 12, 2010

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Government of Canada

Honourable Colin Hansen
Minister of Finance and Deputy Premier
Government of British Columbia

Honourable Bernard LeBlanc
Minister of Justice and Consumer Affairs
Government of New Brunswick

Honourable Kevin O'Brien
Minister of Government Services
Government of Newfoundland and Labrador

Honourable Jackson Lafferty
Minister of Justice
Government of Northwest Territories

Honourable Graham Steele
Minister of Finance
Government of Nova Scotia

Honourable Keith Peterson
Minister of Justice
Government of Nunavut

Honourable Dwight Duncan
Minister of Finance and Chair of Management Board of Cabinet
Government of Ontario

Honourable Doug W. Currie
Minister of Justice and Public Safety and Attorney General
Government of Prince Edward Island

Honourable Don Morgan, Q.C.
Minister of Justice and Attorney General
Government of Saskatchewan

Honourable Archie Lang
Minister of Community Services
Government of Yukon

Dear Ministers:

We are pleased to present to you the following Transition Plan for establishing the Canadian Securities Regulatory Authority.

In developing the draft *Securities Act* and this plan, we have had the benefit of valuable input from the Advisory Committee of Participating Provinces and Territories, officials of participating jurisdictions, staff of participating regulators, other stakeholders, and professional advisers. The recommendations made in this plan, however, are those of the Canadian Securities Transition Office.

This plan fulfils our statutory requirement to develop and deliver a transition plan to you for consideration. With the completion and delivery of this plan, the work of the Transition Office turns to its implementation. We look forward to working with stakeholders on the next phase of this exciting initiative. Together, governments can develop a fundamentally new organization dedicated to seeking the best outcomes for investors and market participants, and giving Canada a competitive edge in today's global capital markets.


Sincerely,



Douglas M. Hyndman
Chair and Chief Executive Officer



Bryan P. Davies
Vice-Chair



Lawrence E. Ritchie
Executive Vice-President and Senior Policy Advisor

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1 Introduction

The Government of Canada established the Canadian Securities Transition Office (the Transition Office) in July 2009 to lead and manage the transition from the current system of separate provincial and territorial securities regulators to a single, national securities regulator. This initiative offers an unprecedented opportunity to design a new securities regulatory system that is both uniquely Canadian and a world leader.

This Transition Plan sets out a roadmap for establishing the Canadian Securities Regulatory Authority (the CSRA), a national regulator that will give Canada a competitive advantage in today's rapidly evolving global markets and that will be accountable, responsive and sensitive to the interests of investors and market participants in all regions of the country and sectors of the market.

The Work of the Transition Office

To date, the Transition Office has had a three-part mandate: (1) to consult with stakeholders; (2) to develop proposed securities legislation; and (3) to develop a transition plan. With the completion and delivery of this Transition Plan, the work of the Transition Office turns to implementation.

As the first step in the three-year process envisioned for the transition to a national regulator, the Transition Office submitted a draft *Securities Act* (the Draft Act) to the federal Minister of Finance. On May 26, 2010, following government review and approval, the Minister of Finance released the proposed Canadian *Securities Act* (the Proposed Act) and the Government of Canada referred it to the Supreme Court of Canada for an opinion as to whether it is within the legislative authority of Parliament.

In parallel with the development of the Proposed Act, the Transition Office has also developed this Transition Plan. Both the Transition Plan and the Proposed Act are informed by the consultative work performed to date by the Transition Office, as well as the extensive research and consultations previously done by the Expert Panel on Securities Regulation. Consultations with a variety

of stakeholders will continue throughout the term of the Transition Office's mandate on key aspects of this initiative.

Participating Jurisdictions

The Government of Canada has invited all 13 of Canada's provinces and territories to participate in the transition planning process. So far, 10 have agreed to do so by nominating members to the Transition Office's Advisory Committee of Participating Provinces and Territories and by providing input on the work of the Transition Office. These jurisdictions, referred to as the "participating jurisdictions" for the purposes of the Transition Plan, are British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Prince Edward Island, Saskatchewan and Yukon. The participating jurisdictions also advise the Transition Office through the Participating Regulators Committee, which comprises representatives of the regulators of the participating jurisdictions, referred to here as the "participating regulators".

This Transition Plan envisions implementation in stages. Once the participating jurisdictions have had an opportunity to review the Transition Plan, each will be asked to enter into an agreement to continue to participate in the development of the CSRA (a Development Agreement). By July 2011, each participating jurisdiction will be asked to enter into a memorandum of understanding with the federal government that firmly commits it to participate in the CSRA and take the necessary steps to allow the CSRA to begin operations by July 2012, referred to as the "launch date" in the Transition Plan.

Our goal is to develop a proposal that will attract the support of all jurisdictions. If not all provinces have agreed to participate in time to meet the launch date, the Transition Office will seek to develop an appropriate interface mechanism to ensure that investors and market participants receive a level of coordinated service inter-jurisdictionally. This alternative, however, will not be as effective as a fully integrated system in which all jurisdictions participate.

Transition Plan

Integrating the existing provincial and territorial securities regulators into a single organization, while maintaining the continuity of regulatory activity, will be complex. It will require significant expertise and efforts from government officials in participating jurisdictions and from participating regulators, as well as input from external advisers.

The Transition Plan sets out the Transition Office's recommendation for how to establish the CSRA and is intended to form the basis of the Development Agreements. It is based on an assessment of the resources and systems of current provincial and territorial securities regulators as well as a consideration of the resources and systems the CSRA will need to fulfil its mandate of national securities regulation and to become a world leader.

While the federal government and the participating jurisdictions have had input into the Transition Plan, the recommendations made here are those of the Transition Office and have yet to be accepted by government stakeholders. We expect that the details of the plan will continue to evolve through dialogue with the provinces and territories and consultation with investors and market participants.

The principles that have guided our work for this plan, and that will anchor its implementation include the following:

- **Maintaining Continuity** – The provision of seamless service and protection to investors and market participants will be a key priority during the transition. Implementation activities will be managed to ensure Canada's capital markets continue to receive appropriate oversight and that the continuity of operations and legal processes is maintained throughout the transition. The goal will be to minimize disruptions and uncertainty.
- **Building on Value** – The existing systems, processes and organizational capacity of participating regulators will be used as much as possible to ensure that the focus of

transition efforts is on areas where resources are needed to enhance operational performance, increase efficiencies and meet new obligations.

- **Retaining Talent** – The talent that exists within the current regulatory systems will be retained and supplemented to ensure the success of the transition and the CSRA. The Transition Office will work with participating regulators to keep their staff informed of plans and progress, as well as employment opportunities with the CSRA.
- **Communicating Proactively** – Effective communication with investors and market participants will be necessary to ensure they are prepared for the transition to the CSRA. The Transition Office will provide relevant and accurate information on the future direction and key milestones for implementing the CSRA, as well as the progress of the implementation.

We have much to accomplish over the next two years to establish the CSRA, ensure a smooth transition from the current provincial and territorial systems and position the organization for success. The remainder of this document gives an overview of our plans for the transition process.

2 Summary

This Transition Plan is a road map for establishing the CSRA. It begins by setting out the vision for the CSRA and the CSRA's anticipated regulatory approach. It then describes the governance and organizational aspects that underlie transition planning; discusses the transitional considerations in respect of human resources and business and information management systems; highlights issues related to initial fee design; describes the process for developing initial regulations and considerations in respect of continuity; and gives a high level overview of the critical implementation milestones that must be met to achieve a July 2012 launch. Key aspects of the plan are summarized briefly below.

Vision

The new regulator we envision will be dedicated to seeking the best outcomes for all of Canada, by establishing national standards that meet international expectations and applying them at the local level with an understanding of their effect on markets and investors. This will require a deep understanding of securities markets at all levels and a strong culture of communication and collaboration to

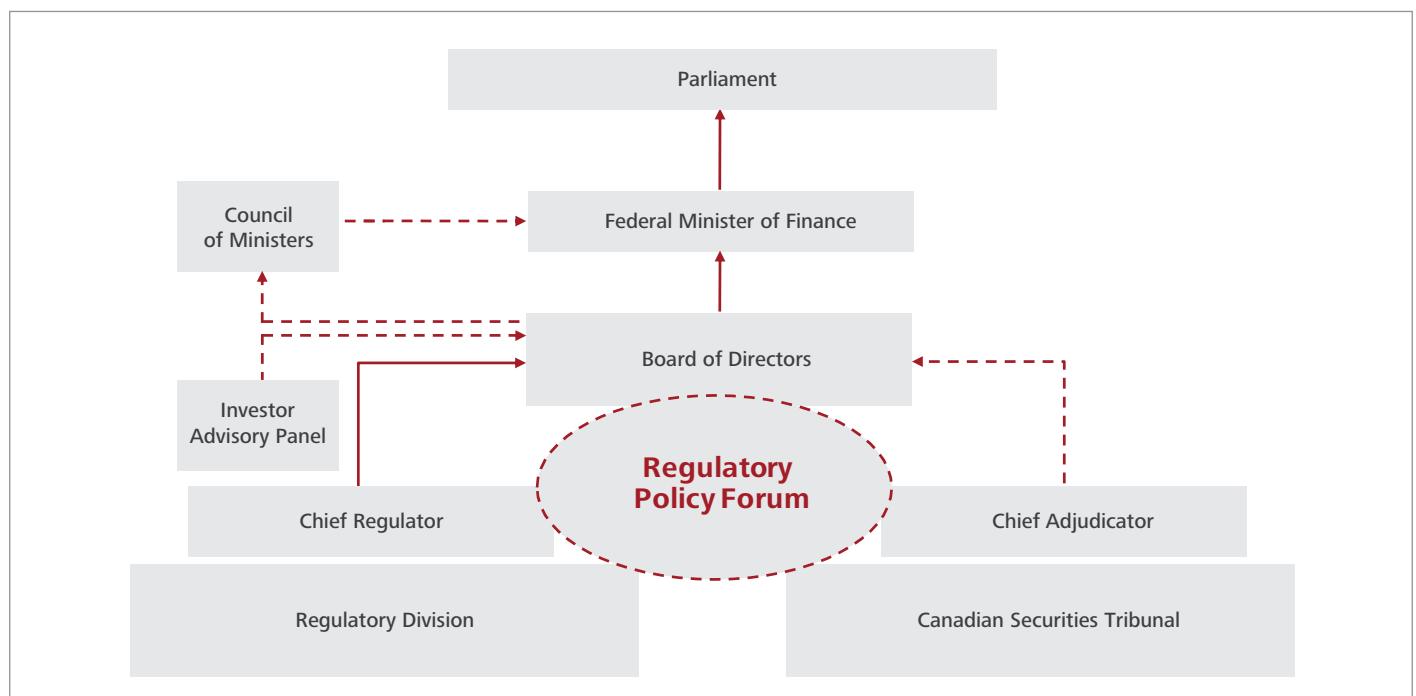
ensure that regulatory staff in all offices can apply the right balance of firmness and flexibility in dealing with specific matters. By doing this job well, the new regulator can give Canada a competitive advantage, making our capital markets more attractive and accessible to issuers and investors, both Canadian and foreign.

Regulatory Approach

The CSRA will take a risk-based, outcomes-focused approach to regulation, identifying and responding to threats to investors and the integrity and stability of capital markets. It will be committed to ensuring that the cost of regulation is commensurate with the intended benefits and that investor protection is at the core of all of its regulatory activities. It will set national standards that are informed by, and sensitive to, the needs of investors and market participants in all parts of Canada and all sectors of the market.

Governance

The governance structure of the CSRA is intended to promote internal and external accountability, clarity



of roles, the leveraging of broad-based capital-markets expertise, and effective engagement of provinces, territories and other stakeholders.

The CSRA will be established as a self-funded Crown corporation. Its key governance and policy-making features include the following:

- A **Council of Ministers**, comprising the federal Minister of Finance and ministers appointed by the provinces and territories, will be established and will meet at least annually. The Council of Ministers will play a meaningful role in the proposed regime, both statutory and non-statutory. In particular, the Council of Ministers will have input on key appointments and policy making, and will play an important accountability role through its review of the CSRA's annual reports and statements of priorities and participation in a five-year review process.
- The **CSRA's board of directors** will set the policy direction for the organization, oversee the CSRA's executive and operations, and make regulations with the consent of the federal Minister of Finance. The board as a whole will have the appropriate mix of expertise and regional representation.
- The CSRA will be made up of a **Regulatory Division** and the **Canadian Securities Tribunal**, headed by a **Chief Regulator** and a **Chief Adjudicator**, respectively. The Regulatory Division will be accountable to the board for all of its operations. To ensure its independence, the Tribunal will be accountable to the board for administrative matters, but not for its adjudicative decisions or how it conducts hearings.
- The **Investor Advisory Panel** will provide a direct voice for investors in policy making as part of a broader strategy to make the CSRA an outward-looking organization focused on understanding, and responding to, threats to investors and to the integrity and stability of markets.

- The **Regulatory Policy Forum**, under the leadership of the board chairperson, will play a consultative role in the CSRA's policy making. It will bring together senior officials of the Regulatory Division and the Tribunal and representatives of the Council of Ministers, the Investor Advisory Panel and other stakeholders.
- The CSRA will report annually to **Parliament** through the federal Minister of Finance, and to the provinces and territories through the Council of Ministers. The CSRA will also publish its priorities for comment each year.
- To ensure that the CSRA and the legislation it administers remain relevant and responsive, a review of the legislation and regulations will be undertaken every five years by a specifically designated committee.

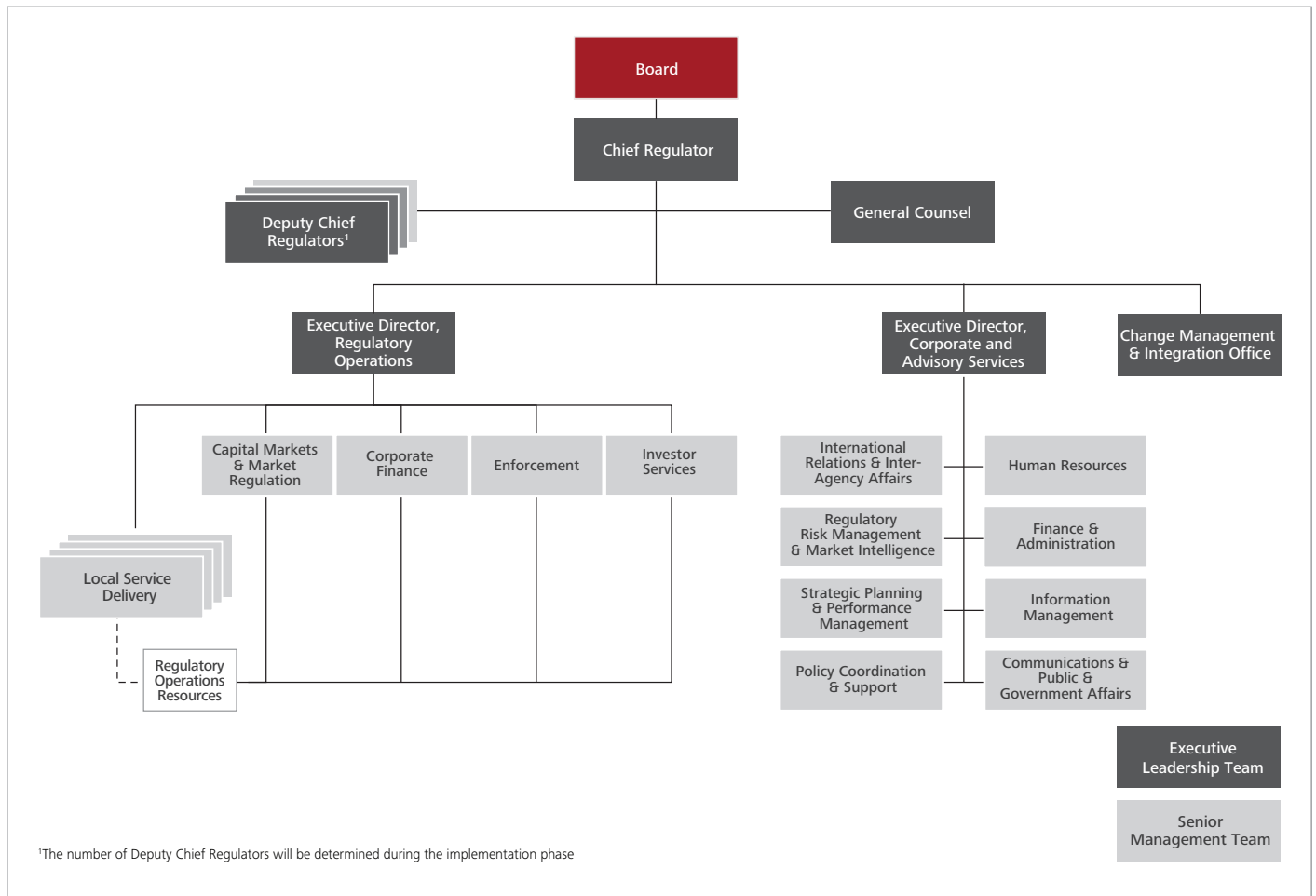
Organization Design

The CSRA will be an integrated national body with local service delivery and distributed decision-making. Its two divisions – the Regulatory Division and the Canadian Securities Tribunal – will provide service at a local level, but will operate independently of each other.

Regulatory Division

The Regulatory Division will be organized functionally, with distributed executive and senior management functions. The key members of the Regulatory Division's executive leadership team and their roles are described below:

- **The Chief Regulator** will be responsible for the overall performance of the Regulatory Division and for recommending the CSRA's policy direction to the board.
- **Deputy Chief Regulators** will be senior executives assigned to specified geographic regions (not yet determined), and will play a key role in ensuring that the CSRA is sensitive to the needs of their regions by communicating regional and local concerns within the CSRA governance and management structure. Along



with the Chief Regulator, the Deputy Chief Regulators will take the lead in developing the CSRA's regulatory policy and ensuring that the policies developed are appropriate for all parts of Canada.

- **The Executive Director, Regulatory Operations** will be responsible for all of the regulatory operations of the CSRA, ensuring that the regulatory departments cooperate and function effectively.
- **The Executive Director, Corporate and Advisory Services** will be responsible for all corporate and strategic advisory services for both divisions of the CSRA.

The executive leadership team will be supported by a senior management team, as reflected in the above diagram.

The CSRA will have an office in each participating province and will provide regulatory services in each participating territory.

The Canadian Securities Tribunal

The Tribunal will be a body with deep expertise in securities regulation and will have a mandate to further the purposes of the Proposed Act. Members of the Tribunal include the Chief Adjudicator, who will be responsible for, among other things, effectively managing administrative hearings across the country; and a number of full-time Associate Chief Adjudicators, who will chair hearing panels. The

Chief Adjudicator and Associate Chief Adjudicators will participate in the Regulatory Policy Forum to ensure that the Tribunal remains connected to the policy function of the CSRA. Other members of the Tribunal will be selected from across the country and appointed on a full- or part-time basis. Members of the Tribunal will hear proceedings in various locations across the country, as required, and will issue decisions and orders.

People

Qualified and experienced leadership and staff are at the heart of the vision for the CSRA. To attract and retain qualified staff who are committed to the vision for the CSRA, the CSRA's total compensation package will be locally competitive. The CSRA will also provide opportunities for professional development and advancement. In keeping with the commitment of the Government of Canada, current staff of participating regulators will be offered the opportunity to find employment with the CSRA.

Business Processes

Almost all business processes of participating regulators will require some adjustment for the transition to the CSRA, but for many of the processes, changes will be minimal. Significant and complex changes will be required for handling complaints and inquiries, initiating and conducting enforcement matters, adjudicating hearings, and managing human resources and other corporate services. Further changes will be needed after the CSRA begins operations, as each operating unit examines its work processes to optimize them and make them consistent.

Information Management

Effective information management will play a key role in service delivery and internal communications, and will facilitate collaboration within the organization. In particular, offices will be linked through videoconferencing, and all staff will have access to an intranet to foster internal communication and support internal work flow. The CSRA will rely on existing systems to support many regulatory

functions initially. It will also be positioned to embrace new technologies after it begins operations.

Fee Design

The CSRA will be self-funding and will operate to break even over a business cycle. It will have a single, simple fee schedule made up of direct fees (such as for processing filings) and indirect fees (paid by market participants to cover the general costs of the regulator).

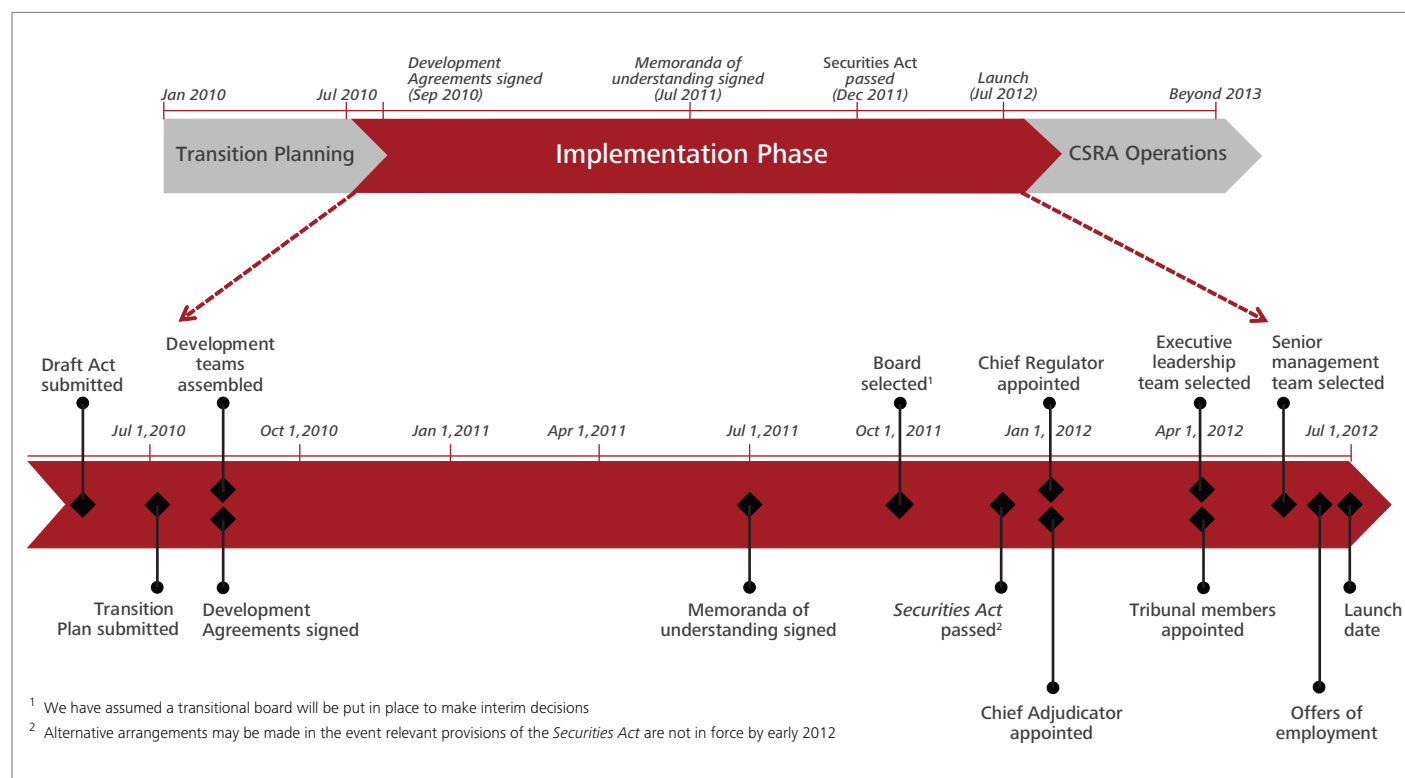
Initial Regulations and Continuity Considerations

The Transition Office, in consultation with stakeholders, will recommend an initial set of CSRA regulations to the board to ensure these regulations can be in place by the launch date. To minimize the impact of the transition on investors and market participants, these initial regulations will be primarily derived from existing national instruments and provincial and territorial rules.

In addition, the Transition Office will develop regulations and processes to ensure continuity is preserved in respect of the enforcement of securities laws. These will ensure that past enforcement orders are continued; on-going investigations and proceedings continue; and once the CSRA is launched, proceedings and prosecutions in respect of past conduct can be brought, and sanctions imposed.

Implementation Planning

The Transition Plan is supported by detailed implementation planning for the significant amount of work required to establish the CSRA. The Transition Plan targets a July 1, 2012 launch date. The critical milestones on which the launch date relies are outlined in the diagram below.



3 Vision

3.1 Background

Dynamic, competitive and well-regulated capital markets are fundamentally important to a modern market economy and are critical to the financial well-being of Canadians. Over many years, Canada's provinces and territories have established a strong foundation for securities regulation, and administer a system with many strengths. Recent improvements include significant harmonization of legislation and rules, the creation of a "passport" system and other coordinated review systems and the development of national information systems.

Capital markets, however, have become increasingly complex and internationally interconnected. Market participants develop new and innovative products and techniques with ever greater speed, and markets rapidly respond to, and transmit, the effects of economic and financial events around the world and across sectors. Keeping pace with today's markets requires a nimble, responsive regulator with the resources and expertise to monitor and assess new developments and determine quickly what, if any, regulatory response is required. The regulator must have the capacity to cooperate with other financial regulators in Canada and abroad and to influence standards internationally, allowing it to pursue the best outcomes for Canada's investors and markets.

In our current structure of provincial and territorial regulators, it is increasingly difficult to marshal the significant, dedicated resources required to meet these challenges, even given increased coordination. This initiative gives Canada the opportunity to build on the work of the provinces and territories in order to improve investor protection and the competitiveness of our markets by fully integrating securities regulation under a single statute and a national organization. This is the next logical step in the reform of securities regulation.

Given Canada's vast size and diversity, securities regulation must work well locally and regionally, as well as nationally

and internationally. Communications technology allows some work to be done at great distances, but there is no substitute for a physical presence. Investors and market participants are spread across the country and need direct access to the regulator, just as the regulator needs to be present in all parts of Canada to maintain its knowledge of, and connection to, the market.

The participants in our capital markets are diverse, both in size and type of business. The regulator must understand and be sensitive to the needs of the full range of market participants, wherever they are located.

To achieve this vision, we must create a new regulator that is dedicated to seeking the best outcomes for all of Canada by establishing national standards that meet international expectations and applying them at the local level with an understanding of their effect on markets and investors. This will require a deep understanding of securities markets at all levels and a strong culture of communication and collaboration to ensure that regulatory staff in all offices can apply the right balance of firmness and flexibility in dealing with specific matters. By doing this job well, the new regulator can give Canada a competitive advantage, making our capital markets more attractive and accessible to issuers and investors, both Canadian and foreign.

3.2 Benefits of the CSRA

The benefits of the regulator we envision can be summarized as follows:

- Consistent protection for investors across Canada
- Effective enforcement of securities laws
- An effective contribution to the integrity and stability of the financial system
- A unified Canadian voice and influence internationally
- Sensitivity to differing circumstances in various regions and sectors
- An integrated, efficient and cost-effective structure

- Swift and coherent policy responses to emerging market trends
- An organizational culture of responsiveness, innovation and flexibility
- Transparency and clear accountability to governments and other stakeholders

Consistent Protection for Investors across Canada

The core of the CSRA's mandate is consistent, comprehensive and effective protection for investors across Canada. An active, multi-faceted outreach and education program, closely linked to the CSRA's compliance and enforcement programs, will be created to make investors aware of their rights, how to protect themselves, and where to complain about misconduct. Investors will also have the opportunity to provide input into policy development through the Investor Advisory Panel and direct consultation.

Effective Enforcement of Securities Laws

Strong enforcement deters misconduct that harms investors, supports general confidence in the markets and fosters voluntary compliance by the majority of market participants. Securities-related criminal offences contained in the Proposed Act are intended to replace equivalent securities-related offences that are currently in Canada's *Criminal Code*. In the Proposed Act, these offences are harmonized with the provisions for general regulatory obligations and regulatory offences.

We envision significant cooperation and coordination among police and regulatory and prosecution authorities to move cases through the most appropriate enforcement process and to promote timely responses to misconduct. The CSRA will also be able to channel resources to promptly identify and investigate suspected non-compliance.

We expect that the CSRA will work with provincial and territorial authorities to have some enforcement staff designated as peace officers for the purpose of conducting securities-related criminal investigations. Such staff will be

able to obtain from the courts production orders under the Proposed Act and search warrants under the *Criminal Code*. With these powers, CSRA staff will be able to conduct investigations arising from the CSRA's regulatory work, which in turn may lead to charges under the general offence and criminal offence provisions of the Proposed Act. In addition, the CSRA will work closely with the RCMP and provincial and municipal police forces to coordinate investigative work. Given its broader focus on enforcement, the CSRA will be positioned to provide expert support for provincial or federal prosecutions of securities-related offences.

An Effective Contribution to the Integrity and Stability of the Financial System

Recent events demonstrate that capital market activity can be a source of systemic risks that threaten the stability of financial systems nationally and internationally. While provincial regulators have had some exposure to systemic risk issues as part of the informal Heads of Agencies group¹, the CSRA's mandate to contribute to the integrity and stability of the financial system, as part of the Canadian financial regulatory framework, is new to securities regulation in Canada.

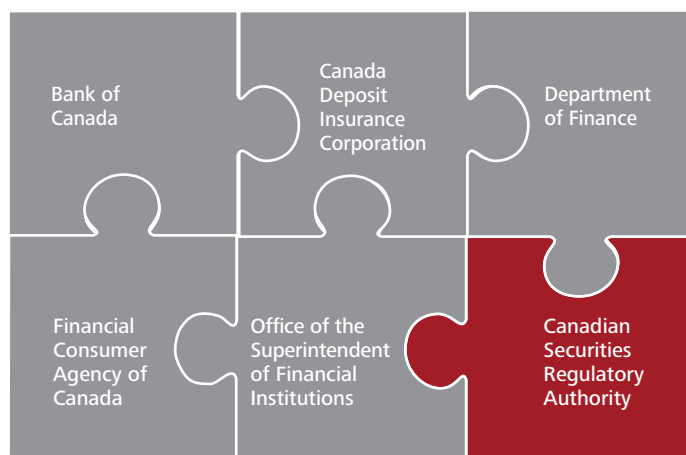
We envision that the CSRA will monitor capital markets to identify potential systemic risks, analyze trends and share pertinent information with other national and international financial authorities. It will use new information-gathering powers and analytical techniques to review activity in both the public and exempt portions of the markets. If required, the CSRA will be able to use the temporary order powers and urgent regulation-making powers under the Proposed Act to respond quickly to market developments and ensure effective regulation of Canadian markets.

As part of fulfilling this new mandate, the CSRA will partner with the Department of Finance, the Bank of Canada, the Office of the Superintendent of Financial Institutions, the Canada Deposit Insurance Corporation

¹ The Heads of Agencies is a forum comprising representatives of the Bank of Canada, the Department of Finance, the Office of the Superintendent of Financial Institutions and securities regulators from Alberta, British Columbia, Ontario, and Quebec. The group meets four times annually to discuss regulatory and related issues concerning the financial markets.

and the Financial Consumer Agency of Canada, as reflected by Exhibit 1.

Exhibit 1: Federal Financial System Supervisory Organizations



In addition, the CSRA will collaborate with participants in Canadian capital markets and international and foreign bodies to monitor, and respond to, risks that threaten investors or the integrity or stability of capital markets.

A Unified Canadian Voice and Influence Internationally

As securities markets become increasingly interconnected globally, governments and regulators are working to better coordinate and integrate the regulation of the financial sector. International forums such as the G8 and G20, the Financial Stability Board and the International Organization of Securities Commissions are working to develop and update standards against which individual countries' systems are evaluated.

We envision that the CSRA will commit the resources necessary to ensure that the Canadian experience, interests and views are taken into account when international standards are developed. In addition, we envision that the CSRA will have staff dedicated to inter-agency and international relations to develop policy and establish information-sharing and regulatory cooperation arrangements that will be available for the use of all

CSRA staff. The board and the executive leadership team will place a priority on making the CSRA a recognized leader in international regulatory circles so that Canada's views are respected and influential in the decision-making processes.

Sensitivity to Differing Circumstances in Various Regions and Sectors

We envision that the CSRA will be an integrated organization that will provide consistent service to investors and market participants across the country through empowered local offices. Each office will be staffed to provide services and make decisions that are needed by local investors and market participants. Members of the senior management team will ensure that offices deliver consistent service in accordance with national standards. Staff in each office will be knowledgeable about, and sensitive to, the needs of local investors and to business needs, and will have the requisite decision-making authority to respond to those needs quickly and directly. This will enable the CSRA to find solutions and approaches that are conducive to efficient capital-raising while ensuring investor protection. In particular, the CSRA will provide the appropriate mix of firm and flexible regulation for Canada's dynamic market for public venture capital financing.

At the policy level, provincial and territorial governments will be able to raise issues and concerns that may be unique to a particular region through the Council of Ministers or the Regulatory Policy Forum. In addition, each Deputy Chief Regulator, as the most senior member of the executive leadership team assigned to a particular region, will play a key role in ensuring that the CSRA is sensitive to the needs of the region by communicating regional and local concerns within the CSRA governance and management structure.

The means by which sensitivity to differing circumstances and needs is fostered within the CSRA structure is described in more detail in Chapter 5 (Governance) and Chapter 6 (Organization Design).

An Integrated, Efficient and Cost-effective Structure

The integration of the current provincial systems through the establishment of the CSRA will reduce inefficiencies and allow resources to be deployed where they are most needed. This more effective use of existing resources, supplemented where necessary with new skills and positions, will enable the CSRA to meet future needs.

The CSRA will operate on a cost-recovery basis and will charge fees to cover its operating costs over a business cycle. In contrast to the practice in a number of jurisdictions, it will not set fees in excess of costs to provide net general revenue to government. This change will allow service levels to increase and new resources to be deployed, while containing overall fee levels.

In addition, the adoption of a single statute, a single regulatory body and a simplified fee structure, described in more detail in Chapter 10 (Fee Design), will reduce compliance costs in the market place.

Swift and Coherent Policy Responses to Emerging Market Trends

The CSRA will bring together and apply the significant, dedicated resources required to meet the challenges of increasingly complex and internationally connected capital markets. It will follow a consultative approach to ensure that its policy initiatives are well-informed and that it understands the potential effect of policy alternatives on investors, market participants and the market as a whole. However, as an integrated national body with the authority and accountability to develop and implement securities policies, the CSRA will be able to move swiftly when necessary to respond to emerging market trends and international developments. The CSRA's anticipated regulatory approach is described in more detail in Chapter 4 (Regulatory Approach).

An Organizational Culture of Responsiveness, Innovation and Flexibility

To achieve its goals, the CSRA must be a nimble, responsive organization, nationally integrated with decision-making

and service delivery distributed throughout Canada.

It must have a culture of excellence and achievement.

Governance and management structures and processes, human resources policies, and operational and administrative processes will all support the organization's approach to achieving its mandate. Recruitment processes, particularly for board and management positions, will focus on candidates with a deep understanding of and commitment to the CSRA's vision.

We envision that the CSRA will be willing to innovate, take prudent risks and learn from experience. It will be flexible, responsive to new ways of doing business and willing to try new ideas and approaches for achieving its purpose. It will embrace a culture of cross-regional and cross-functional collaboration, open communication and self-criticism driven by clear and frank evaluations of existing requirements and processes, all in pursuit of continuous improvement. The culture of the organization we envision will ensure that investors and market participants throughout Canada receive exceptional service, and that the CSRA consistently fulfils its mandate.

Transparency and Clear Accountability to Governments and Other Stakeholders

Transparency and clear accountability help ensure that a regulator effectively carries out its mandate. We envision that the CSRA will have a culture of transparency and accountability, both internally and externally. Generally, an emphasis on outreach and open communication will assist the CSRA to maintain transparency in its operations. A governance structure with clearly defined roles and reporting channels will ensure the requisite accountability as described in Chapter 5 (Governance).

4 Regulatory Approach

Two aspects of the CSRA's mandate and vision are the effective protection of investors and a contribution to the integrity and stability of the financial system. An effective approach to regulation, for both on-going policy making and implementation, is key to meeting these goals. In keeping with the vision for the CSRA, the organization will develop policy swiftly and coherently; ensure that regulation is informed by input from external and internal stakeholders, including investors and market participants; and apply policy consistently across the organization.

This chapter outlines a proposed regulatory philosophy and approach that will allow the CSRA to identify and respond to threats to investors and the integrity and stability of capital markets; a description of the national standards that the CSRA is expected to set to ensure consistent delivery of

services and investor protection across the country; and the way in which the CSRA will interact with self-regulatory organizations, which play a role in regulation.

4.1 Regulatory Philosophy and Approach

The CSRA will incorporate advanced regulatory approaches, many of which have already been adopted, to varying degrees, by provinces and territories. The CSRA will build on the strengths of provincial and territorial securities regulators, institutionalizing leading practices and establishing a unified approach to capital markets regulation in Canada. The approaches the CSRA will adopt are summarized in Exhibit 2. They are not mutually exclusive, but together provide the means by which the CSRA will ensure that resources are deployed effectively to achieve desired outcomes.

Exhibit 2: CSRA Regulatory Approach

Regulatory Approach	Objective	Benefit
Risk-based	<ul style="list-style-type: none"> To develop methodologies and tools for identifying and evaluating risks to investors and the integrity and stability of capital markets for the purpose of focusing regulatory efforts appropriately. 	<ul style="list-style-type: none"> Provides enhanced efficiency and effectiveness through the development of regulatory programs designed to address risk in an informed, structured and customized manner.
Outcomes-focused	<ul style="list-style-type: none"> To develop policies, programs and regulations that articulate desired regulatory outcomes and are supported by other non-legislative regulatory tools, including compliance monitoring, issuance of regulatory guidance, education and enforcement. 	<ul style="list-style-type: none"> Provides better protection of investors and reduced costs and complexity for industry.
Proportionate	<ul style="list-style-type: none"> To design policies, programs and regulations that fit the characteristics of market participants. To develop methodologies and tools for assessing the impact of regulatory actions to minimize the regulatory burden on market participants. 	<ul style="list-style-type: none"> Recognizes the effect of regulation on different market participants while ensuring investor protection.
Cost-effective	<ul style="list-style-type: none"> To recognize that business and regulatory costs and other restrictions on business and investment activities of participants should be commensurate with the regulatory benefits sought. 	<ul style="list-style-type: none"> Maximizes net benefits of regulation for investors and market participants.

Risk-Based

A risk-based approach to regulation provides a mechanism for identifying emerging risks and discriminating among them to identify what matters most and focus resources appropriately. It supports the development of regulatory programs designed to address risk in an informed, structured and customized manner. The CSRA will use this approach in policy development, compliance and enforcement to support efficient use of regulatory resources by prioritizing risks and regulatory activities. A risk-based methodology, informed by local circumstances, will serve as an operating framework for actions and decision-making and will allow for more effective oversight that focuses on transactions, products, markets and market participants that pose a risk to investors or to the integrity or stability of capital markets.

The CSRA's risk-based approach includes monitoring market data and market trends to form leading risk indicators to trigger regulatory responses. The CSRA will support this approach to regulation by adopting and enhancing the leading risk-based regulatory tools used by provinces and territories and, where appropriate, developing new models. Key areas where risk models are expected to be used include:

- **Policy** – to determine whether to develop or amend regulations or policies
- **Corporate Finance** – to determine the priority, scope, frequency and intensity of prospectus and continuous disclosure reviews
- **Compliance** – to determine the priority, scope, frequency and intensity of on-site inspections
- **Enforcement** – to determine whether to open an investigation, the scope of a new investigation and the priority of open cases
- **Registration** – to determine the priority, scope, frequency and intensity of registration application and registrant filings

The CSRA will assess the different risks posed by markets, investment products and market participants as it develops its risk-based approaches.

Outcomes-Focused

The CSRA's primary regulatory focus will be the detection of risks or threats to investors and markets, and addressing those threats appropriately. This will be achieved through an outcomes-focused approach to regulation. The effectiveness of the national regulatory system and the CSRA will be measured less by outputs (such as the number of prospectuses reviewed, registrants regulated, exemption applications processed or enforcement actions concluded), and more by regulatory outcomes (for example, by the degree to which market participants or investors are at risk of an adverse event).

When the CSRA finds it necessary to intervene to address a risk or threat, it will consider all regulatory tools in searching for the most effective outcomes-focused solution, including compliance monitoring, enforcement, guidance, education and regulation-making. The CSRA will consider all other regulatory responses before regulation-making, which is generally the most intrusive and least timely alternative. For each potential response, the CSRA will consider its ability to implement, enforce and monitor the effectiveness of the proposed response, in addition to the costs, both of implementation by the regulator and compliance by industry.

An outcomes-focused approach means that the CSRA will hold market participants accountable for their decisions, rather than telling them how to run their businesses. Under this approach, the CSRA will:

- respond to new regulatory challenges by considering a full range of regulatory tools;
- focus on enforcing current regulations rather than creating new regulations;
- provide timely, accessible and clear guidance to clarify expectations rather than setting new requirements;

- ensure that new regulations, policies or regulatory guidance are aligned with its statutory mandate, strategic priorities and desired regulatory outcomes;
- develop principles-based requirements and standards, where appropriate;
- ensure outcomes are informed by industry and investor expertise and experience;
- develop strategies to ensure that regulatory approaches are appropriate for small and medium-sized enterprises; and
- coordinate policy-development activities with the enforcement function to foster consistency in the interpretation and enforcement of regulations.

Proportionate

Proportionate regulation promotes adapting regulation based on an entity's economic characteristics and risks – potentially applying different requirements to different groups of market participants. It requires that the regulator is sensitive to economic efficiency while maximizing investor protection and minimizing negative economic market impacts.

The CSRA will apply proportionate regulation principles. In particular, it will ensure its regulations are appropriate for small issuers without sacrificing investor protection.

Cost-effective

Cost-effective regulation recognizes that the business and regulatory costs and other restrictions on business and investment activities of participants should be commensurate with the regulatory benefits that are sought. It requires that regulators understand the impact of their actions and act in a manner that achieves regulatory objectives in a way that minimizes the regulatory burden on market participants. It also requires an analysis to be conducted to ensure that proposed regulatory initiatives consider both the need to protect investors and to foster fair, efficient and competitive markets. The approach is to

minimize the compliance burden on market participants and to emphasize the need for businesses to be accountable for their actions.

Under the CSRA's approach to cost-effective regulation:

- The CSRA will intervene when market forces are deemed insufficient to remedy an anticipated or existing market failure;
- Staff will perform a regulatory impact analysis at the start of the policy-making process when proposing any policy initiative that is likely to have material market-wide impacts;
- The regulatory impact analysis will include a concise summary of whether the proposed measure is likely to address the identified issue in a way that produces net benefits;
- The regulatory impact analysis will include both qualitative and quantitative components;
- Staff will conduct a post-implementation review to determine if the regulatory initiative was effective in solving the problem it was designed to address, and to estimate the cost and burden actually incurred by industry (including both intended and unintended consequences); and
- The CSRA will periodically assess regulations, policies and guidelines to validate their effectiveness and to eliminate unnecessary regulations.

4.2 National Standards

Managers and staff in local offices will have delegated authority to make decisions. This authority will be balanced by national standards.

The Transition Office will lead the development of an initial set of national regulatory standards for the CSRA. These standards will be consistent with international

standards, but adapted to Canada's varied markets. They will build on provincial and territorial standards, where applicable, and will help the CSRA deliver its regulatory services consistently across the country. The design of a single set of national standards will require careful consideration of local market differences to ensure that the standards developed are appropriate for all parts of Canada and provide consistent protection for investors, regardless of where they are located. The set of standards is expected to cover:

- **Compliance Monitoring** – to guide the nature, frequency and intensity of compliance programs such as continuous disclosure reviews and responses to non-compliance
- **Enforcement** – to outline consistent approaches to assessing complaints, performing administrative inquiries and criminal investigations, and litigating cases
- **Examinations** – to establish a common set of examination topics and check-lists
- **Recognition and Designation** – to set standard approaches for recognizing, designating and overseeing marketplace entities such as exchanges, clearing and settlement organizations and credit rating agencies
- **Registrations** – to ensure that all offices process individual and firm registration applications consistently
- **Regulatory Perimeter** – to define the individuals, products, services, financial institutions, market participants and marketplaces that are regulated under securities legislation

4.3 Role of Self-Regulatory Organizations

Self-regulatory organizations like the Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada play an important role in securities regulation. For the securities firms that are their members or participants, these organizations establish

fitness and conduct rules, monitor compliance, handle investor complaints and take enforcement action for misconduct. The Proposed Act maintains provisions for the CSRA to recognize these organizations and rely on them to regulate their members and participants.

The CSRA will ultimately want to review and consider the future role of self-regulatory organizations but, in the meantime, will establish relationships with them to best utilize their regulatory resources and expertise to achieve the purpose of the Proposed Act. Establishing a single national regulator provides the opportunity to simplify the oversight of these organizations and raise it to a more strategic level. The CSRA will establish clear expectations for the regulatory functions within each self-regulatory organization's responsibility, allow these organizations sufficient flexibility to determine how best to fulfil those functions and hold them accountable for meeting the expectations set. To make the self-regulatory organization regime most effective, it will be important to align the work of these organizations with the vision and regulatory approach of the CSRA.

5 Governance

The governance structure for the CSRA has been designed to promote internal and external transparency and accountability, both of which are part of the vision for the organization. The governance structure is also the foundation for establishing an organizational culture of responsiveness, innovation and flexibility, and fostering sensitivity to differing circumstances and needs. It seeks to ensure the effective integration of local service delivery and national standards, and to promote consistent investor protection across Canada. The structure proposed here follows global leading practices and provides for clear roles, capital markets expertise and the effective engagement of provinces, territories and other stakeholders.

This chapter sets out the key aspects of the governance structure and the principles that underlie its development. It also describes the consultative bodies, including the Investor Advisory Panel and Regulatory Policy Forum, which will provide input into policy making.

Implementation of the governance structure will require the adoption of the *Securities Act* (in a form substantially similar to the Proposed Act) and the creation of the CSRA. The Transition Office will undertake preparatory work during the implementation phase, in consultation with participating jurisdictions, to have the core elements of

the governance structure in place as soon as possible after the adoption of the *Securities Act*.

5.1 Principles

The principles guiding the detailed design and implementation of the CSRA governance structure are detailed in Exhibit 3.

5.2 Key Aspects of Governance Structure

The CSRA will be divided into the Regulatory Division and the Canadian Securities Tribunal. Exhibit 4 summarizes its structure.

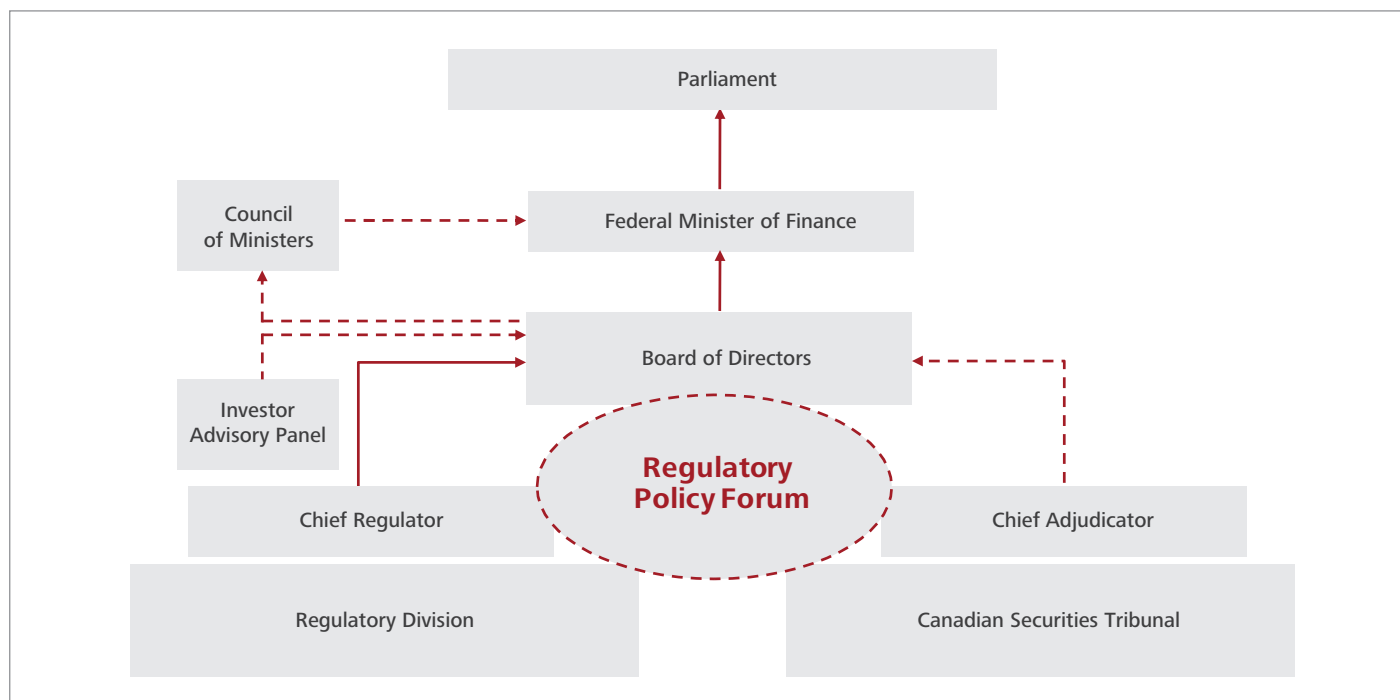
Corporate Structure: The CSRA will be a federal, self-funded Crown corporation operating at arm's length from government and overseen by an independent board of directors. The Crown corporation structure provides the CSRA with the autonomy and accountability to operate effectively in complex and rapidly changing capital markets. This model also provides the appropriate measure of independence from government.

Council of Ministers: A Council of Ministers, comprising the federal Minister of Finance and ministers appointed by provinces and territories participating in the CSRA, will be established and will meet at least annually. The Council will

Exhibit 3: Governance Principles

Governance Principle	Description
Independence	<ul style="list-style-type: none">The CSRA will operate at arm's length from government, be independent of market participants and ensure that adjudicative decision-making is independent from its regulatory function.
Accountability	<ul style="list-style-type: none">The CSRA will be accountable to federal, provincial and territorial governments, as well as to investors, market participants and the public.
Regional input	<ul style="list-style-type: none">Provinces and territories will have statutory roles in the governance and policy deliberations of the CSRA.
Clear roles and responsibilities	<ul style="list-style-type: none">Responsibilities for policy direction, policy implementation and adjudication will be clearly separated and defined.
Strong oversight	<ul style="list-style-type: none">Strong board oversight will ensure that the CSRA fulfils its mandate and achieves its vision.

Exhibit 4: CSRA Governance Structure



play a significant statutory and non-statutory role in the proposed regime. Specific areas of Council responsibility include:

- **Appointments:** The Minister of Finance will be required to consider the recommendations of the Council in the appointment of the chairperson and other members of the board of directors, the Chief Regulator, the Chief Adjudicator and other members of the Canadian Securities Tribunal. This will be particularly significant for the initial appointees, who will set the direction of the organization.
- **Policy making:** The Council will play several important roles in policy making. Council members will be able to raise policy concerns and proposals through the Regulatory Policy Forum (described below) and the Chief Regulator will be required to specifically respond to them. The Council will also be able to

require CSRA executives to attend Council meetings, where Council members will be able to ask questions about policy and other issues.

- **Accountability:** The Council will review the CSRA's annual report, review the CSRA's annual statement of priorities and review the required five-year review report. It will also provide recommendations on the membership of the review committee to be appointed every five years.

These mechanisms are designed to ensure that the provinces and territories have a meaningful role in monitoring the effectiveness of the CSRA and its regulation-making and policies.

Board of Directors: The CSRA's board of directors will be composed of at least nine and no more than 15 members, who will collectively have expertise in capital markets,

administrative and securities law, accounting, business and financial regulation. The board as a whole will also be representative of Canada's regions. It will set the policy direction for the organization; oversee the CSRA's affairs, other than the Tribunal's adjudicative decisions or how the Tribunal handles individual hearings; establish policies outlining the Chief Regulator's powers and duties; and make regulations with ministerial consent. It will take the lead in hiring the Chief Regulator and setting executive compensation.

The board will be responsible for ensuring that sound principles and best practices in corporate governance are maintained to provide appropriate oversight of the CSRA's activities. This will include the approval of strategic and business plans, appropriate management of risks and evaluation of the Chief Regulator's performance.

The board's policy-making function will include approval of regulations subject to the consent of the federal Minister of Finance. The board, working with the Chief Regulator, will seek to ensure that the CSRA's policy direction and approach remain cohesive and true to the vision for the CSRA, taking into account the various sources of policy input built into the CSRA structure.

All directors will be appointed by the Governor in Council on the recommendation of the Minister of Finance following consultation with the Council of Ministers. Directors will be appointed for a period of not more than five years. Once the board is in place, it will itself lead the recruitment and selection process for new directors and will present a list of recommended candidates to the Council of Ministers. The focus of the board recruitment and selection process will be to ensure that the board consistently reflects the right mix of skills and experience as well as regional diversity.

Board Chairperson: The chairperson of the CSRA's board of directors will not exercise an executive function within the CSRA. The chairperson will exercise the powers and duties that are specified by the board and will preside at

all meetings of the board. In particular, the chairperson will serve as the lead contact with the Minister of Finance and Council of Ministers on policy direction and will be responsible for developing strong relationships with other government departments and agencies. The board chairperson and the Chief Regulator will represent the CSRA at national and international regulatory forums. The chairperson will also chair the Regulatory Policy Forum, and as such, will be instrumental in ensuring that policy development is informed by stakeholder input.

The chairperson will be appointed by the Governor in Council on the recommendation of the Minister of Finance following consultation with the Council of Ministers and the board. The board will play a role in identifying and screening candidates for the role of chairperson that is similar in nature to its role in recruiting and selecting other directors.

Chief Regulator: The Chief Regulator will serve as the chief executive officer of the CSRA's Regulatory Division and will be responsible for the management of its business and operations.

The Chief Regulator will be appointed for a term set by the board of directors, with the approval of the Governor in Council on the recommendation of the Minister of Finance, and will be subject to the general direction of the board of directors and accountable to it for the performance of the Regulatory Division.

Chapter 6 (Organization Design) provides additional detail about the Regulatory Division and the role of the Chief Regulator.

Chief Adjudicator: The Chief Adjudicator is the head of the Canadian Securities Tribunal and will oversee the Tribunal's adjudicative functions. In order to maintain the Tribunal's independence with respect to its adjudicative decisions and how it handles individual hearings, the Chief Adjudicator will be accountable to the board for the

direction and management of the affairs and operations of the Tribunal, but not for the performance of the Tribunal's adjudicative functions.

As part of the oversight of the Tribunal's adjudicative functions, the Chief Adjudicator will prepare the Tribunal annual budget and plan. Each year, the Chief Adjudicator will provide self-assessments to the board reflecting the extent to which the Chief Adjudicator and the Tribunal have fulfilled the objectives set out in the plan submitted to the board. The Chief Adjudicator will also recommend candidates for membership on the Tribunal to the Council of Ministers and Minister of Finance, with a view to ensuring that the Tribunal contains the appropriate mixture of expertise and that members are available to conduct hearings in various regions of Canada.

The Governor in Council, on the recommendation of the Minister of Finance following consultation with the Council of Ministers, will appoint a full-time member of the Tribunal to serve as the Chief Adjudicator.

Further detail about the Canadian Securities Tribunal and its members, including the Chief Adjudicator, is provided in Chapter 6 (Organization Design).

Reporting: The CSRA will report annually to Parliament through the Minister of Finance, and to the provinces and territories through the Council of Ministers. The CSRA will also publish its priorities for comment each year. The CSRA will hold an annual public meeting, and the Council of Ministers and the public will have an opportunity to comment on, and question, the CSRA's annual reports and statement of priorities.

Five-year review: To ensure that the CSRA and the legislation it administers remain relevant and responsive, a review of the legislation and regulations must be undertaken every five years. The Minister of Finance will appoint the review committee and set the scope of the review in consultation with the Council of Ministers.

5.3 Investor Advisory Panel and Policy Advisory Committees

Investor Advisory Panel

The Proposed Act requires the CSRA to establish an Investor Advisory Panel, consisting of persons with knowledge of, and experience with, issues relevant to investors in securities. This panel will provide a direct voice for investors in policy making and is part of a broader strategy to make the CSRA an outward-looking organization that is focused on understanding and responding to threats to investors and to the integrity and stability of markets.

The panel's mandate will be to represent the interests of investors by advising the Chief Regulator on the CSRA's regulations, policies and practices. The Chief Regulator will be required to consider the panel's written recommendations and respond to them in writing. The panel will be required to provide the board an annual report on its activities.

During the implementation phase, the Transition Office will continue to consult with interested stakeholders about the design and operation of the panel and appointments to it.

Policy Advisory Committees

The CSRA may establish national, regional and local policy advisory committees as an additional mechanism for gathering expert feedback on policy initiatives. The policy advisory committees will likely be composed of industry stakeholders and subject matter experts, who will provide input and advice on policy matters related to a number of areas, including securities law, accounting, derivatives, systemic risk and small issuers. It is anticipated that these committees and the selection processes associated with them will be similar to those established by provincial and territorial securities regulators.

5.4 Regulatory Policy Forum

The Regulatory Policy Forum is designed to ensure broad organizational engagement in policy development and

effective input by external stakeholders. Its structure is set out in Exhibit 5.

The Forum’s mandate is to:

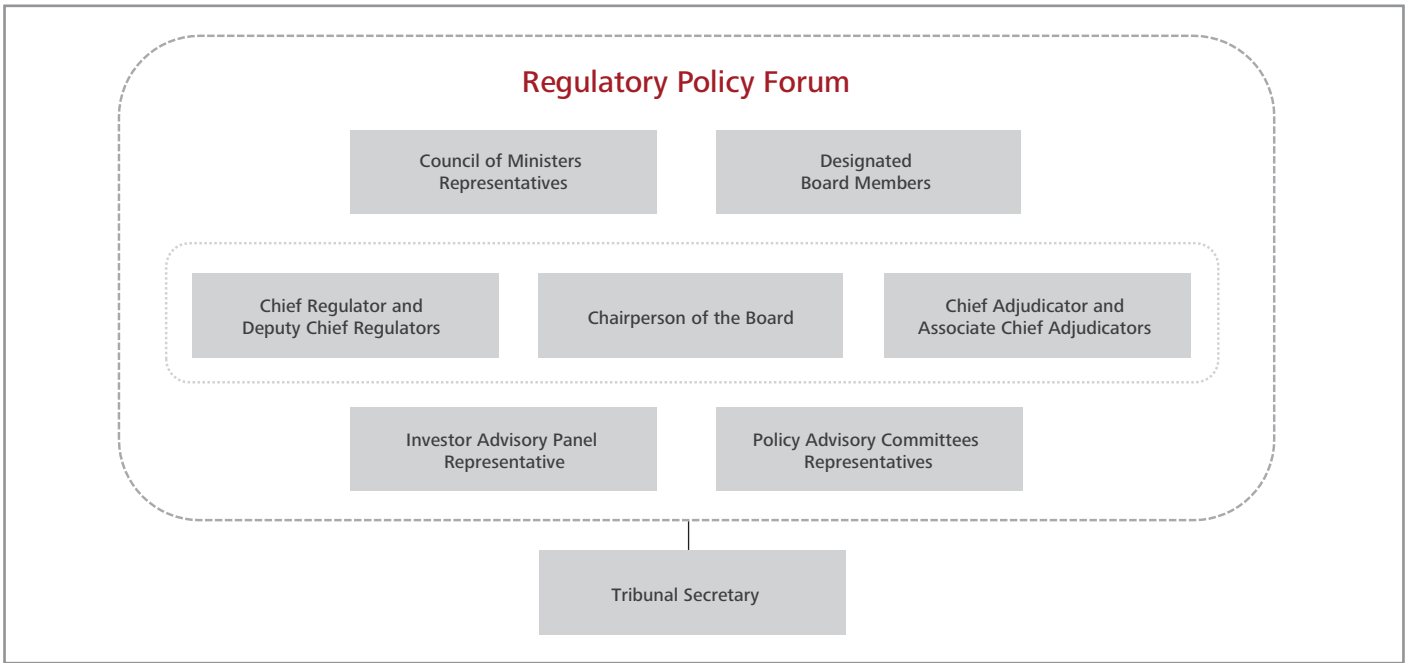
- participate in the consideration and development of the CSRA’s regulations, policies, practices and activities; and
- obtain the views of investors, market participants and other stakeholders on the CSRA’s regulations, policies, practices and activities, as it considers appropriate.

The Forum will meet at least eight times per year and will bring together the Chief Regulator and the Deputy Chief Regulators of the Regulatory Division; the Chief Adjudicator and Associate Chief Adjudicators of the Canadian Securities Tribunal; and directors of the board, as designated by the chairperson. The Forum will be chaired by the chairperson of the board. The secretary of the Tribunal will serve as the secretary of the Forum.

Representatives of the Council of Ministers, or their delegates, and a representative of the Investor Advisory Panel will be invited to at least three meetings of the Forum annually to discuss policy issues. Proposals raised by any Council representative at those meetings must be addressed by the Chief Regulator at the next meeting of the Forum attended by Council representatives. The chairperson may also invite any other person to attend these meetings, including the chairs of the CSRA’s policy advisory committees.

The Forum will provide an opportunity for senior CSRA officials and stakeholders to meet formally to discuss, consider and comment on policy initiatives and priorities. By participating in the Forum, members will contribute their expert knowledge and insights regarding the development and effectiveness of the policy framework. They will also help identify emerging policy issues, and will propose appropriate responses. To ensure the CSRA remains flexible and responsive, however, the Forum will

Exhibit 5: The Regulatory Policy Forum



serve a consultative and policy-development function only and the Chief Regulator will not be required to obtain the consensus or approval of the participants before recommending policy or regulations to the board.

The participation of members of the Tribunal in the Forum will enable the CSRA's Regulatory Division to gain insights and perspectives from the individuals involved in hearing cases. In turn, the members of the Tribunal will have the benefit of being exposed to the policy-making function of the CSRA, allowing them to maintain expertise in securities policy and ensuring that the CSRA's regulatory philosophy and priorities inform hearings of regulatory matters. However, to ensure that active hearings are not compromised, matters before the Tribunal and issues related to those matters will not be discussed at the Forum.

6 Organization Design

The CSRA will be a new organization, comprising functions now performed within existing provincial and territorial securities regulators, as well as new functions to carry out the mandate and powers under the Proposed Act, including those pertaining to enforcement and the contribution to the integrity and stability of the financial system. In this regard, the CSRA will not simply be the consolidation of the existing Canadian securities regulators, but rather the creation of a fundamentally new organization, which is both nationally integrated and able to deliver services and make decisions locally. The organization design for the CSRA is based on an assessment of the organizational structures currently in place within the participating regulators; planning for the future scope of operations for the new organization; and a consideration of models that exist in other countries.

This chapter describes the detailed organization design of the CSRA, including the principles underlying it; and provides an overview of the key players in the Regulatory Division and the Canadian Securities Tribunal, their organization and interplay, and how they will be distributed among local offices. It also touches on issues related to official languages laws.

During the implementation phase, the Transition Office, in consultation with participating regulators and expert consultants, will develop a detailed organization design, which will build on the proposals set out in this document.

6.1 Principles

The same principles that form the core of the vision for the CSRA guide the CSRA's design. They are summarized in Exhibit 6.

Exhibit 6: Organization Design Principles

Organization Design Principle	Description
Service excellence	<ul style="list-style-type: none">Stakeholders will receive a consistently high level of service regardless of where or how they interact with the CSRA.
National standards	<ul style="list-style-type: none">The CSRA will introduce national standards to ensure that regulations and policies are applied consistently across the country.
Local decision-making	<ul style="list-style-type: none">The CSRA will promote operational decision-making that is locally distributed to ensure that decision-making authority resides as close as possible to investors and market participants.The CSRA will have a presence in all participating jurisdictions and local staff will be empowered to make decisions.
Independence and accountability	<ul style="list-style-type: none">The CSRA will operate at arm's length from government and will be independent of the market participants that it regulates.Adjudicative decision-making will be independent from the regulatory function.The CSRA will be externally and internally accountable.
Innovation	<ul style="list-style-type: none">The CSRA will promote a culture of innovation, leveraging the best of provincial, territorial and global regulation and will aim to be recognized as a world leader in securities regulation.
Global leadership	<ul style="list-style-type: none">The CSRA will seek to play a leadership role in the establishment and implementation of international standards for securities regulation.
Cost-effectiveness	<ul style="list-style-type: none">The CSRA will be operationally efficient.
Attractive employer	<ul style="list-style-type: none">The CSRA will be an attractive employer and will foster an environment that helps recruit and retain talented and qualified staff who will embrace the vision for the organization and work to fulfil its mandate.

6.2 Divisions of the CSRA

The CSRA will have two independent divisions: the Regulatory Division and the Canadian Securities Tribunal. The Regulatory Division will be responsible for all functions and services to be provided by the CSRA, with the exception of the adjudicative functions performed by the Canadian Securities Tribunal. Each division and its key personnel are described in more detail below.

6.3 The Regulatory Division

The Regulatory Division will operate through offices in all provinces and territories that participate in the CSRA. It will have a lean and efficient executive leadership team, consisting of a Chief Regulator, a Deputy Chief Regulator for each of several defined geographic regions, two executives with national responsibility for regulatory operations and corporate and advisory services, the General Counsel and the head of Change Management and Integration. The Chief Regulator and other members of the executive leadership team will lead the development of the CSRA's strategic direction and regulatory policy, with the direct participation of local offices, where most of the organization's staff and expertise will reside. The Regulatory Division will have authority to make regulatory decisions, obtain information from market participants and conduct regulatory inquiries.

A number of models were considered in designing the Regulatory Division. These included geographic, customer segment and functional design models. The assessment involved evaluating each model against the design principles, considering the structures within the participating jurisdictions and reviewing the structures in place at other national regulatory bodies around the world.

This assessment allowed us to determine that an integrated, functional model with accountable, local decision-making is the most suitable for the CSRA. As such, the CSRA will be organized along functional lines. This will ensure that the agency develops and maintains strong expertise in all required functional areas. These areas will develop and

promote national standards. These national standards will be applied at the local level, where business is conducted, within an accountability framework that will ensure appropriate local decision-making authority.

The organization design is summarized in Exhibit 7 on the following page.

Executive Leadership Team

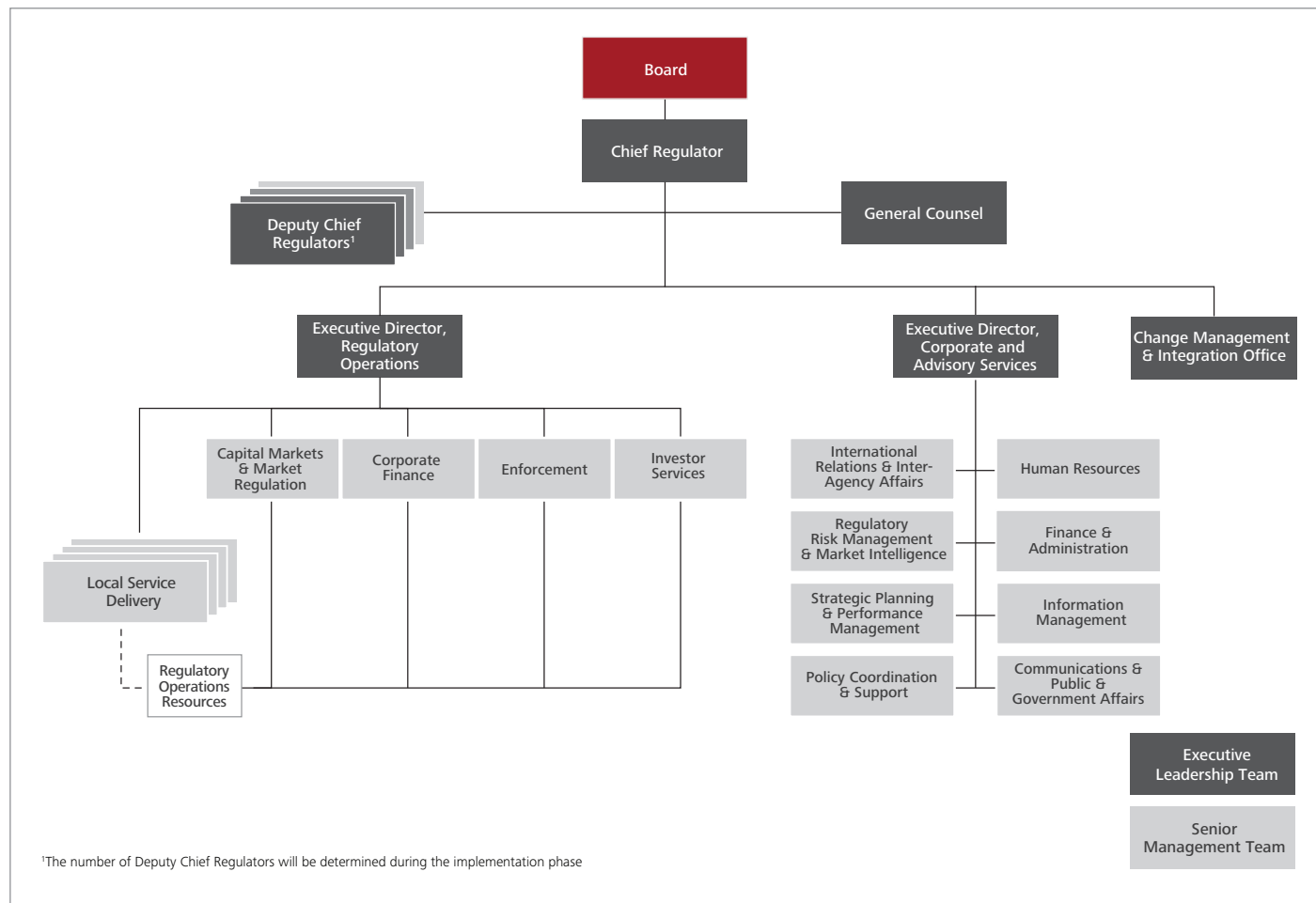
The Regulatory Division will have an executive leadership team with significant policy and capital markets expertise as well as clear accountability for decision-making. The executive leadership team will work closely and collaboratively to set the policy direction of the organization and to manage shared statutory and delegated authorities. The expected roles of the members of the executive leadership team are described in more detail below.

Chief Regulator: The Chief Regulator will serve as the chief executive officer of the Regulatory Division and will lead the CSRA in ensuring that it fulfils its mandate and achieves its vision. The Chief Regulator will:

- recommend the CSRA's strategic direction to the board;
- recommend the CSRA's policy agenda to the board;
- lead all regulatory programs and provide leadership in identifying emerging issues and trends; and
- authorize enforcement actions.

Ultimately, the Chief Regulator will have responsibility for the performance and outcomes of the CSRA's Regulatory Division in discharging its mandate and will set the tone and culture for the organization. The Chief Regulator, often in conjunction with the chairperson of the board, will represent the CSRA to the Council of Ministers, the Investor Advisory Panel, the International Organization of Securities Commissions and other national and international bodies.

Exhibit 7: CSRA Regulatory Division – Organization Design



The appointment process for the Chief Regulator as well as the accountability aspects of the role are described in Chapter 5 (Governance).

Deputy Chief Regulators: The Deputy Chief Regulators are the senior representatives of the CSRA responsible for specified geographic regions of Canada. The initial configuration of these regions will be determined after provinces and territories have committed to participate in the CSRA.

The Deputy Chief Regulators will be the “voice” and “ears” of the CSRA within regions. In addition to having

a close relationship with the local offices, they will regularly consult with local investors, market participants and other stakeholders to understand local needs.

They will provide information about local and regional needs as the CSRA’s executive leadership team considers policies and regulations, and will serve as the executive sponsors for national policy and special projects. Input into policy making will be provided both through a close working relationship with the Chief Regulator and other members of the executive leadership team, and through participation in the Regulatory Policy Forum.

Subject to the direction of the Chief Regulator, each Deputy Chief Regulator will be able to exercise the powers, and perform the duties, conferred on the Chief Regulator.

Executive Director, Regulatory Operations: The Executive Director, Regulatory Operations will have primary responsibility for all regulatory operations (capital markets and market regulation, corporate finance, enforcement, and investor services), ensuring that all of the regulatory departments cooperate and function effectively. Regulatory departments will be managed nationally by the functional department heads who report to this executive director, and who themselves will be situated in various local offices, as appropriate. The Executive Director, Regulatory Operations will ensure that opportunities for collaboration and information sharing across offices and functions are identified and all offices are measured against consistent performance benchmarks. The Executive Director, Regulatory Operations will exercise authority delegated by the Chief Regulator on regulatory operational matters and will confer with other members of the executive leadership team to ensure decisions are consistent and aligned with the CSRA's mandate and vision.

Executive Director, Corporate and Advisory Services: The Executive Director, Corporate and Advisory Services will be responsible for the delivery of strategic advisory services to support regulatory operations and the provision of all corporate services. Strategic advisory services include the development and delivery of critical market intelligence, policy-making support services and economic analysis and analytic services that support the CSRA's mandate to contribute to the stability of the financial system. In addition, the Executive Director, Corporate and Advisory Services will be responsible for overseeing international and national intergovernmental relations activities, strategic planning, performance management and communications services. Corporate services responsibilities will include human resources, finance, facilities, information management, and document and records management.

General Counsel: The General Counsel will provide in-house legal advice focusing on the legal authority and accountabilities of the CSRA, as well as regulatory programs and general management. The General Counsel's office will provide secretarial services to the board.

Head of Change Management and Integration:

This person will coordinate the on-going transformation and development of the CSRA. Following the launch of the CSRA, significant work will be required to foster the desired culture, build new capabilities and integrate operations. These activities are expected to require three to five years of significant leadership and resource investment, though the position of head of Change Management and Integration itself may exist for a shorter period of time. The person exercising this role will be responsible for the overall coordination of the change-related activities, including change management, process improvement, information technology enhancements and integration.

Senior Management Team

The senior management team, along with staff, will support the executive leadership team. The members of the senior management team will be responsible for leading their respective areas of accountability and coordinating activities across the CSRA. With the exception of local service delivery leaders, who play a somewhat different role, the members of the senior management team are the heads of their respective functional departments. The roles of the senior management team are described in more detail below.

Capital Markets and Market Regulation: The head of this department will provide national leadership for registration, compliance, market regulation, and recognized and designated entity oversight, including the oversight of self-regulatory organizations and review of requests for exemptive relief.

Corporate Finance: The head of this department will be responsible for leading prospectus reviews and receipt, continuous disclosure reviews, and ongoing monitoring

of reporting issuers. This person's responsibilities will also include regulation of publicly offered investment funds, fund disclosure, review of requests for exemptive relief and development of investment-fund policy.

Enforcement: The head of this department will lead securities enforcement, including coordinating enforcement activities across local offices, and between the CSRA and law enforcement agencies and Crown prosecutors. Local enforcement staff will assess, investigate and prosecute cases, and local enforcement managers will have delegated decision-making authority over which cases the CSRA investigates and prosecutes, guided by national standards. While all functional department heads will work collaboratively, the head of Enforcement will work particularly closely with the head of Investor Services, as that function will be the primary recipient of complaints and inquiries, and will manage investor advisories and alerts locally.

Investor Services: The head of this department will be responsible for managing inquiries and complaints from the public, and developing and executing national strategies for investor consultation and education, as well as investor advisories, alerts and outreach on specific issues.

International Relations and Inter-Agency Affairs: The head of this department will be responsible for supporting the executive leadership team and the board chairperson in maintaining strategic international relationships to ensure that the CSRA contributes to the development of international standards. This person will also liaise with domestic financial regulators regarding policy development, regulatory program overlaps and gaps, information sharing, and inter-agency meetings. This work will involve coordinating the contributions of staff from many parts of the CSRA.

Regulatory Risk Management and Market Intelligence: The head of this department will be responsible for assessing marketplace information and data from all internal and external public and confidential sources in

order to identify emerging products and processes and recommend regulatory action. This role will be critical to the support of the CSRA mandate to monitor systemic risk and contribute to financial system stability. It will involve the coordination of the contributions of staff from all parts of the CSRA to the organization's collective understanding of the Canadian markets.

Strategic Planning and Performance Management:

The head of this department will be responsible for coordinating strategic and business planning, as well as the development of the CSRA's performance measurement system. This will include preparation of annual performance reports for the organization.

Policy Coordination and Support: The head of this department will work closely with the Deputy Chief Regulators, who will be the executive sponsors of the CSRA's policy projects. This person will be responsible for coordinating the staffing of cross-functional policy-making project teams (made up primarily of regulatory operations staff in various local offices) and ensuring the consistent development, approval and publication of all CSRA policies and regulations. This role will involve the coordination of the policy development contributions of staff from many parts of the CSRA.

Human Resources: The head of this department will be responsible for the design and delivery of the human resources programs that will allow the CSRA to become a desirable place to work. The head of Human Resources will also be responsible for the design of human resources policies that are aligned with an organizational culture of excellence and achievement.

Finance and Administration: The head of this department will be responsible for providing strategic financial management advice, and for internal controls and financial reporting, as well as managing receivables and payables. This role will also be responsible for procurement, facilities management and internal audits.

Information Management: The head of this department will be responsible for all information management and technology services, as well as knowledge and records management and access to information and privacy issues.

Communications and Public and Government

Affairs: The head of this department will be responsible for ensuring the CSRA maintains effective lines of communication with the public, provinces and territories, and the federal government. This person will also be responsible for establishing the CSRA's overall communications and stakeholder engagement strategy.

In addition to the functional department heads described above, the senior management team also includes local service delivery leaders. Each office will have a person designated as the local service delivery leader who will ensure that regulatory departments are coordinated and services are efficiently delivered within that office. The local service delivery leader will also coordinate local staff contributions on the CSRA's strategic initiatives. Reporting to the Executive Director, Regulatory Operations, people in this role will be pivotal to the effective operation of the local offices within the overall structure of the organization. All regulatory operations staff will report directly through their functional department heads. The most senior staff in each functional department of a given office will also coordinate local activities with the local service delivery leader, who will focus on identifying and leading opportunities for collaboration and information sharing across regulatory functions to avoid functional silos within that office. The service delivery leaders will also keep the senior management team apprised of national service standards and processes to promote effective service delivery aligned with the CSRA's strategic initiatives throughout the organization. Within each local office, the service delivery leader will ensure that the office receives the corporate and advisory services (including information technology and human resources) to operate effectively and seamlessly as part of the larger organization.

6.4 The Canadian Securities Tribunal

The division of the CSRA responsible for adjudication will be known as the Canadian Securities Tribunal. Its chief activities will be:

- the making of public interest orders on application by the Chief Regulator or, in some circumstances, market participants; and
- the review of statutory decisions of the Regulatory Division and recognized entities on application by persons directly affected.

The Tribunal will be independent of the Regulatory Division, but will remain connected to the policy function through its participation in the Regulatory Policy Forum, which will allow it to maintain the expertise needed to make appropriate decisions on complex regulatory matters. The Tribunal may also enter into an administrative services agreement with the Regulatory Division to provide it with the administrative support services it requires (for example, human resources, financial management and information technology).

As discussed in part in Chapter 5 (Governance), the independence of the Tribunal from the Regulatory Division is demonstrated by the requirement that the Tribunal report to the board only on matters that do not affect adjudicative decisions or how the Tribunal handles individual hearings. Tribunal independence is further supported by the right of the federal Minister of Finance to direct the CSRA to allocate adequate funding to the Tribunal, security of tenure for Tribunal members for their appointed terms and separate nomination and performance evaluation processes for Tribunal members.

The composition of the Tribunal is described below.

Tribunal members: The Tribunal will maintain a roster of qualified full- and part-time members, selected from across the country to be called upon to hear and decide cases in various locations as needed. All members of the

Tribunal will be appointed by the Governor in Council, on the recommendation of the Minister of Finance following consultation with the Council of Ministers, to hold office for a three- to five-year term. The recruitment process for all Tribunal members will be open and will seek out appropriate nominees based on merit and experience. It will be managed by the Chief Adjudicator (described below), who is expected to recommend candidates to the Council of Ministers with a view to ensuring that the membership of the Tribunal reflects a balance of experience, expertise and regional diversity.

Chief Adjudicator: The Chief Adjudicator will be a full-time member selected to lead the Tribunal. Key responsibilities of the Chief Adjudicator include:

- supervising matters related to the Tribunal's performance of adjudicative functions;
- recommending candidates for Tribunal membership to the Council of Ministers and Minister of Finance;
- allocating work among members, including assigning members to sit and preside at Tribunal hearings;
- issuing decisions and orders;
- chairing selected hearings;
- preparing the annual Tribunal budget and plan;
- appointing the secretary of the Tribunal and hiring staff necessary to assist in the performance of the Tribunal's adjudicative functions; and
- in collaboration with Associate Chief Adjudicators (described below), establishing and maintaining appropriate rules with respect to the proceedings, practice and procedure of the Tribunal.

One of the primary functions of the Chief Adjudicator will be to establish hearing panels. This will require the skill and

sensitivity to ensure that each panel has the appropriate combination of expertise and experience. As appropriate, panels will include members from other regions in order to promote consistency and sharing of perspectives.

The Chief Adjudicator will also participate in the Regulatory Policy Forum, along with Associate Chief Adjudicators, to remain connected to the CSRA's policy function, and to contribute expertise to the policy development process and maintain the connection to policy development needed to make appropriate decisions on complex regulatory matters.

The appointment process for the Chief Adjudicator as well as the accountability aspects of the role are described in Chapter 5 (Governance).

Associate Chief Adjudicators: Associate Chief Adjudicators, together with the Chief Adjudicator, will establish and maintain rules with respect to the proceedings, practice and procedure of the Tribunal. They will also chair hearing panels across Canada, as assigned by the Chief Adjudicator. Along with the Chief Adjudicator, Associate Chief Adjudicators will also be expected to participate in the Regulatory Policy Forum. Subject to the direction of the Chief Adjudicator, they may exercise the power and perform the duties of the Chief Adjudicator. The Governor in Council, acting on the recommendation of the federal Minister of Finance following consultation with the Council of Ministers, will designate one or more full-time members of the Tribunal to act as Associate Chief Adjudicators.

Secretary to the Tribunal: The Tribunal will be supported by a secretariat that is independent of the Regulatory Division. The secretary to the Tribunal will administer hearings and meetings of the Tribunal and its committees. Legal advisory services for the Tribunal will be managed by the secretary. The secretary of the Tribunal will also function as the secretary of the Regulatory Policy Forum to ensure that discussions at the Forum do not compromise any active or potential hearings.

6.5 Local Offices and Distributed Structure

As a national organization, the CSRA will be geographically distributed across Canada. The CSRA will provide services in all jurisdictions participating in the CSRA through their current local offices. Offices will continue to vary in size and scope of activity, depending on the activities and needs of investors and market participants in the areas served by the offices.

To ensure the CSRA operates effectively across the country, certain offices may need to assume new roles to reflect the CSRA's expanded mandate (for example, to support the financial stability function or expanded enforcement powers). In addition, certain local offices will play support roles on a national basis to provide economies of scale, handle workload overflow and offer back-up capabilities.

Staff who currently provide securities regulatory services in the territories also perform other functions. The CSRA may have local offices in the territories or it may explore arrangements to provide its services, on an agency basis, through existing government agencies.

The distributed nature of the organization is reflected in a number of important design features:

- Decision-making will typically be delegated to management in local offices and balanced by national standards and functional accountability.
- Deputy Chief Regulators will work from local offices in their assigned geographic regions and will meet regularly across the country with other members of the executive leadership team.
- The senior management team and the executive directors will generally be situated in local offices across the country. The specific location of these individuals will be based on practical considerations, including availability of skills and expertise, and proximity to market participants.

- The Canadian Securities Tribunal will have a presence and hold hearings across the country as is appropriate to the circumstances.
- CSRA board and Regulatory Policy Forum meetings will be held across the country on a regular basis.

Overall, the CSRA's executive leadership team and the senior management team will need to be highly mobile and will rely on support from the CSRA's technology infrastructure (such as videoconferencing and intranet) to fulfil the organization's national mandate.

6.6 Official Languages

Local offices will provide a high level of service to investors and market participants that is respectful of federal and provincial official languages laws. The Transition Office will review the specific requirements of those laws as part of the implementation phase.

Documentation prepared by the CSRA for the public will be made available in both official languages.

The CSRA will not impose any translation requirements on reporting issuers beyond the requirements that exist today. Reporting issuers will be permitted to file disclosure documents in the official language of their choice, subject to compliance with provincial languages laws.

7 People

The right leadership and staff are needed to create the culture of responsiveness, innovation and flexibility that is part of the vision for the CSRA. The expression of this culture within the CSRA will be supported by human resources policies, a total compensation program and recruitment processes aimed at attracting qualified and talented staff with a deep commitment to the vision for the organization. In keeping with the Government of Canada's commitment, staff of participating regulators will be given an opportunity to find employment with the CSRA.

This chapter sets out the key considerations and principles informing the human resources strategy for the CSRA; provides information about the current workforce composition of participating regulators; describes the characteristics the CSRA will strive to embody as an employer; outlines the culture, environment and compensation program required to achieve the vision for the organization; and sets out an approach for ensuring that existing employees of participating regulators remain informed and engaged throughout the transition process.

The Transition Office will develop a total compensation program and human resources policies and processes during the implementation phase of the transition process for consideration and adoption by the CSRA board.

7.1 Principles

The human resources programs for the CSRA will be designed to reflect the principles summarized in Exhibit 8.

Exhibit 8: Human Resources Principles

Human Resources Principle	Description
Service excellence	<ul style="list-style-type: none">A culture of external and internal service excellence will be promoted and maintained and innovation will be encouraged and supported.
Consistency	<ul style="list-style-type: none">A single set of human resources policies and programs will be in place on launch date.
Competitiveness	<ul style="list-style-type: none">The total compensation strategy will be competitive with local labour markets.

7.2 Current Workforce Composition

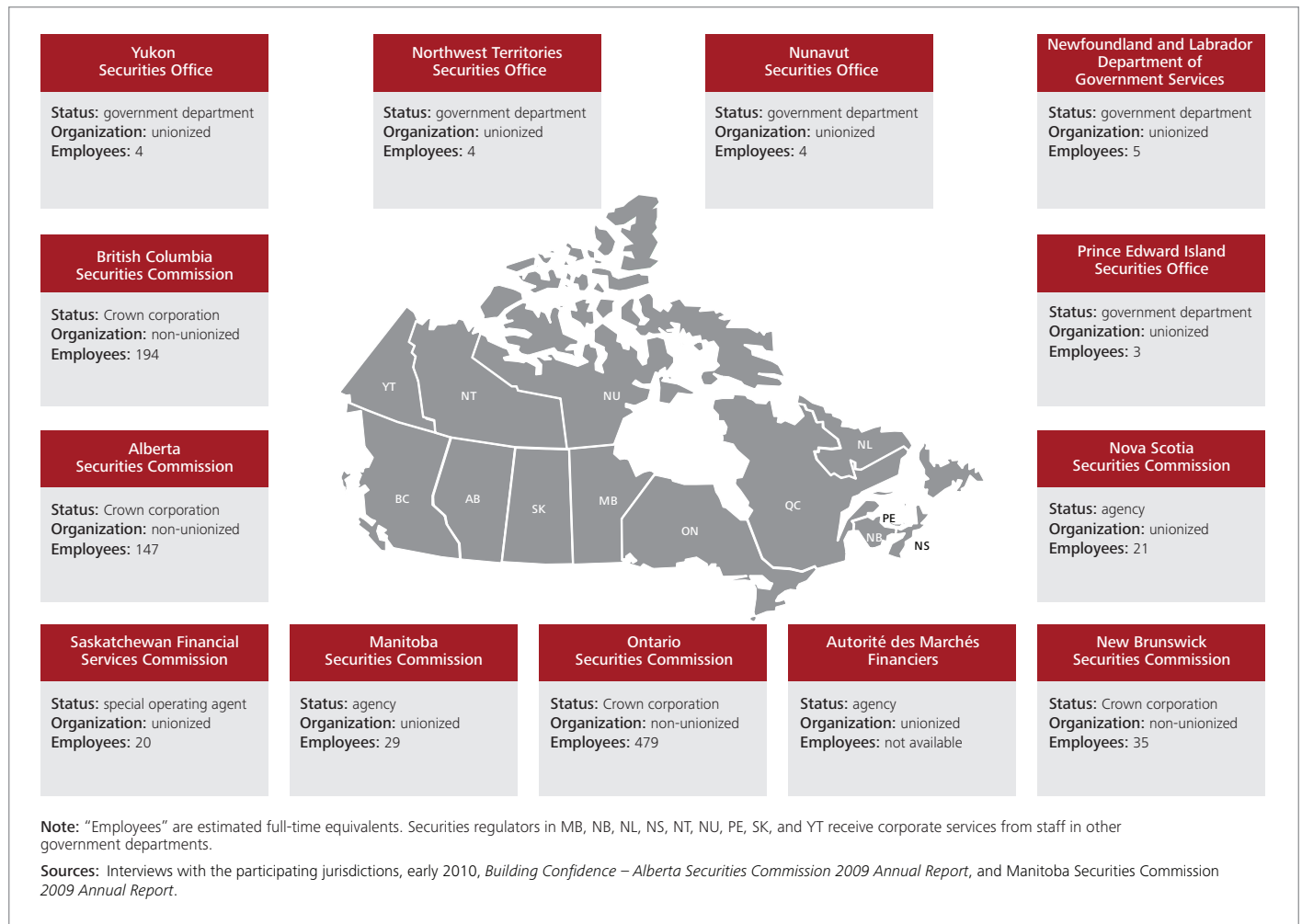
The participating regulators are currently organized as either stand-alone Crown corporations (British Columbia, New Brunswick, and Ontario) or are housed within provincial or territorial government ministries. The 10 participating regulators have a combined workforce of nearly 800 employees and vary greatly in size, from more than 400 employees in Ontario to fewer than five in some of the territories and Atlantic provinces.

Most participating regulators benefit from a stable workforce with relatively low turnover and many employees have significant tenure. In seven of the 10 jurisdictions, a portion of the workforce is unionized. However, the unionized work force represents only about five per cent of the total staff of the participating regulators. A summary of the workforce of all the Canadian securities regulators is provided in Exhibit 9.

7.3 Culture and Compensation

Given the importance of experienced and dedicated leadership and staff to the success of the CSRA, it is vitally important that the CSRA offers an employment environment that will attract and retain staff of the participating regulators, as well as new employees who will meet the needs of the new organization. The target employment environment for the CSRA is one that possesses an attractive organizational culture, allows for empowered decision-making and provides a competitive total compensation program.

Exhibit 9: Workforce Profile of Canadian Securities Regulators



Attractive Organizational Culture

To achieve the vision of an organizational culture of responsiveness, innovation and flexibility, the CSRA must aim to develop and disseminate the core behaviours and attributes shown in Exhibit 10.

Empowered Decision-Making

The success of the CSRA in fulfilling its mandate and achieving its vision will depend on the extent to which staff are provided with the decision-making authority necessary to respond to local market conditions. In turn, the empowerment of staff with meaningful decision-

making authority is expected to create a more desirable and fulfilling working environment.

In the CSRA structure, local decision-making will be supported by national standards, which will provide a policy framework for managers and staff across the country. Since local offices will be part of the policy development process, such national standards will reflect local input.

In addition, staff in any location will be able to confer with others across the country to seek advice on the impact of decisions, and determine where adjustments may be

Exhibit 10: Target Culture for the CSRA

Behaviour or attribute	Description
Ethical	<ul style="list-style-type: none"> Employees will act in accordance with the rules and procedures that govern the conduct of the CSRA and will be seen to be above reproach.
Service-oriented	<ul style="list-style-type: none"> Employees will provide timely and responsive service to the public and others outside and inside of the organization.
Action-oriented	<ul style="list-style-type: none"> Employees will take responsibility for the performance of their work and for resolving problems even if those problems are outside their regular responsibilities, and they will follow through on their commitments.
Responsible for results	<ul style="list-style-type: none"> Employees will work hard to achieve their performance goals and will be committed to delivering efficient and effective outcomes.
Flexible	<ul style="list-style-type: none"> Employees will be sensitive to differing circumstances and individual needs, and will be prepared to consider exemptive relief for market participants in alignment with the Proposed Act.
Open and communicative	<ul style="list-style-type: none"> Employees will be willing to seek the opinions and advice of others to solve problems, will ask for help when they need it, will seek honest feedback, will be responsive to constructive feedback and will respect diversity and the official languages of Canada.
Collaborative	<ul style="list-style-type: none"> Employees will share information readily among groups and will work together across different functions and offices to achieve desired outcomes.
Receptive to change	<ul style="list-style-type: none"> Employees will frequently contribute ideas on how to improve work practices, look for better ways of doing things, look for the positive side of changes and difficulties and quickly adapt to new ways of working when changes are introduced.
Innovative	<ul style="list-style-type: none"> Employees will embrace innovation, understand and consider the level of risk in decision-making and try new ideas without fear of reprimand if unsuccessful.
Outward-looking	<ul style="list-style-type: none"> Employees will maintain an outward focus, and will understand market issues and the strategic context in which the CSRA operates. Employees will reach out to investors, market participants and internal business partners, actively seeking input from them using plain language and transparent communications.
Proactive	<ul style="list-style-type: none"> Employees will deal with issues as they occur before they become a problem, take corrective action when they discover a problem and take the initiative to address new situations without waiting to be told what to do.
Committed to quality and continuous improvement	<ul style="list-style-type: none"> Employees will strive for excellence in everything they do, make an extra effort to ensure that their work is of high quality and apply lessons learned to ensure organizational and individual improvement.

required. This information will be fed back through the national policy development process to ensure decision-making is consistent on a national basis, while also being responsive to changing local conditions.

Competitive Total Compensation

The Transition Office will recommend a total compensation program, including a consistent set of benefits, for the CSRA. The goal is that this program be competitive with

the cash compensation, pension, benefit and professional development programs that current employees of provincial and territorial regulators now have. To retain and attract talented employees, the CSRA's total compensation will also need to be competitive locally.

A substantial amount of analysis needs to be completed during the implementation phase of the transition to develop a competitive total compensation program for the new organization. The issues that need further analysis are discussed briefly below.

Cash Compensation: The CSRA's compensation plan will likely include base salary and pay-for-performance components. The incentive program will be aimed at recognizing the performance of managers and staff, as well as the achievement of the CSRA's goals. The compensation plan will be designed as part of a thorough compensation study to be completed in the early stages of the implementation phase.

Pension: Employees in all participating jurisdictions are members of provincial or territorial public-sector pension plans. While these plans are similar to each other, there are important differences among them. These differences will be analyzed in detail during the implementation phase to determine what can be offered as part of the CSRA's total compensation package.

Benefits: As part of the total compensation program design, the Transition Office will recommend a comprehensive benefits program for the CSRA. As there are a number of variations in the existing benefit programs of participating regulators, the implementation phase will include a detailed analysis of benefit plan options.

Professional Development: Professional development includes the opportunity to grow in a position and to develop the skills and experience required for advancement. An important element of the total compensation program will be the assistance that is provided to support the

professional development of managers and staff. The implementation phase will include a detailed review of professional development program options.

7.4 Smooth Transition

The transition to the CSRA must be managed carefully to minimize disruptions, uncertainty and inconvenience for staff. The implementation of the Transition Plan will be designed to minimize the impact on current operations and the uncertainties in the process. The overall objective is to create a smooth and transparent transition to the new organization.

In keeping with the commitments made by the Government of Canada and the anticipated needs of the CSRA, we expect that staffing levels will remain largely unchanged in the new organization. The CSRA will review possible duplication of responsibilities, particularly in the corporate services areas. However, the CSRA will also likely need to develop new capacities in areas such as market intelligence, enforcement and investor education, where the national mandate offers opportunities for enhancements to current practices.

The following principles will guide workforce transition activities:

- Employees will be treated fairly and with respect.
- Employees will be provided with the required support to successfully navigate through the transition.
- Communication will occur early, frequently and transparently.
- Information will be provided to employees across jurisdictions in a similar manner.
- Training will be provided to employees where required due to changing roles.

To keep staff informed, the Transition Office will work with participating regulators to establish an intranet to communicate about transition activities.

As part of the workforce strategy that will be developed in greater detail during the implementation phase, the Transition Office will develop and manage an integrated plan for change management efforts that coordinates jurisdiction-specific change and monitors and measures overall progress.

8 Business Processes

The business processes required by the CSRA will be developed with both the CSRA's mandate and the vision for the organization in mind. While the initial transition of business processes will focus on ensuring a seamless transition and minimal disruption and adjustment for investors and market participants, the goal post-launch will be to optimize critical business processes to ultimately create a competitive advantage for Canada's capital markets.

This chapter gives a high-level outline of the principles guiding the redesign of business processes; provides an assessment of the business processes of the participating

regulators; and describes what is required to develop business processes for the launch of the CSRA.

Implementation of business processes by the launch date will require significant cooperation with participating regulators and other stakeholders.

8.1 Principles

The principles described in Exhibit 11 have guided the Transition Office's assessment of the business processes that will be required by the CSRA and the approach to implementing them.

Exhibit 11: Business Process Redesign Principles

Business Process Redesign Principle	Description
Service excellence	<ul style="list-style-type: none">Stakeholders will receive consistently high levels of service regardless of where or how they interact with the CSRA.
National standards	<ul style="list-style-type: none">The CSRA will introduce national standards to ensure that regulations and policies are applied consistently across the country.
Local decision-making	<ul style="list-style-type: none">The CSRA will promote operational decision-making that is locally distributed to ensure that decision-making authority resides as close as possible to investors and market participants.The CSRA will have a presence in all participating jurisdictions and local staff will be empowered to make decisions.
Innovation	<ul style="list-style-type: none">The CSRA will promote a culture of innovation, leveraging the best of provincial, territorial and global regulation and will aim to be recognized as a world leader in securities regulation.
Cost-effectiveness	<ul style="list-style-type: none">The CSRA will be operationally efficient.
Simplicity	<ul style="list-style-type: none">Business processes will only include the activities and tasks required for effective service delivery.
Consistency	<ul style="list-style-type: none">Business processes will be executed consistently among local offices.
Measured changes	<ul style="list-style-type: none">Business process redesign efforts prior to launch will be limited to those that are required to mitigate business risk, ensure a smooth transition for staff, and minimize disruption to market participants and investors.Process optimization will occur after launch.

8.2 Business Process Scope

The CSRA business processes have been categorized into three main areas:

- **Core business processes:** These include the primary regulatory and adjudicative activities performed by the CSRA, and often involve interacting with stakeholders outside of the organization.
- **Advisory business processes:** These support the core business processes by providing professional services and specialized skills to support the Regulatory Division.
- **Enabling business processes:** These include activities required to support the on-going operation of the CSRA, and generally involve interacting with people within the organization.

The processes that fall within the above areas were defined and assessed as part of the development of a CSRA business process model. The model is supported by a review of the business process data from domestic and foreign securities regulators and information from, and consultations with, participating regulators. It has also been informed by the

Proposed Act. The model was a key part of developing the CSRA's organization design, detailed in Chapter 6, and the analysis of information management priorities, detailed in Chapter 9.

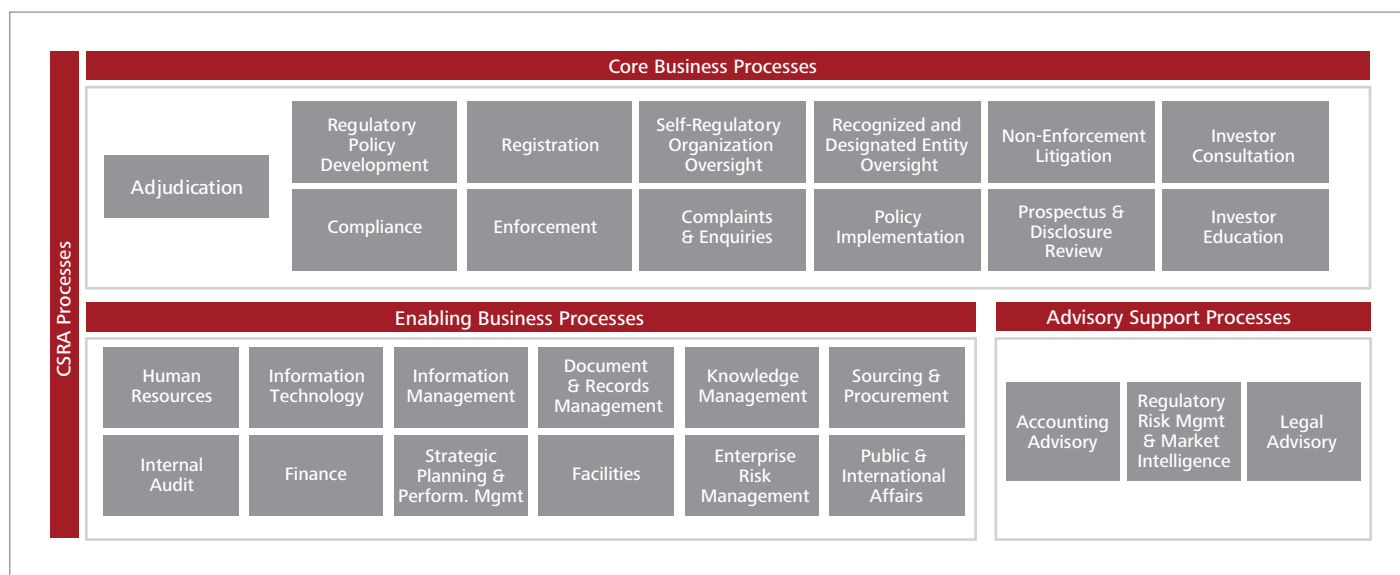
The CSRA business process model is summarized in Exhibit 12.

8.3 Business Process Prioritization

Each of the processes identified in Exhibit 12 has been defined in more detail and validated with the participating jurisdictions. In addition, the Transition Office performed an initial assessment of each business process to determine which processes require redesign during the implementation phase.

All processes will require at least some minor changes to successfully launch the CSRA. Many processes – including disclosure and prospectus reviews and self-regulatory organization oversight – will not have to change significantly initially. Immediately after the launch, however, the CSRA will undertake initiatives to improve even these processes. The head of Change Management and Integration will coordinate this work.

Exhibit 12: CSRA Business Process Model



Nearly half of all processes will require significant changes during the implementation phase. The Transition Office will work closely with participating regulators to redesign these processes.

The Transition Office also performed a qualitative assessment of the complexity of the changes required to all of these processes:

- Processes only performed by one participating regulator, and scalable, were considered to be of low complexity.
- Processes performed by many participating regulators, but largely harmonized or standardized, were also considered to be of low complexity.

- Processes performed by many participating regulators, but not harmonized or standardized, were generally assessed as “medium” or “high” in complexity based on considerations specific to the process.

- New processes were rated as “low,” “medium” or “high” according to the potential scope of the work and the effort required to implement the minimum functionality necessary for the launch of the CSRA.

Exhibit 13 identifies the processes that require more than minor changes as well as the complexity associated with business process changes.

Exhibit 13: Business Process Implementation Priorities

Category	Process	Rationale	Change Complexity
Core business processes	Adjudication	<ul style="list-style-type: none"> • Processes must be developed to ensure that hearings are held in a consistent manner across the country without delay. 	Medium
	Enforcement	<ul style="list-style-type: none"> • Processes and protocols must be developed to accommodate the new powers related to criminal offences under the Proposed Act; such powers are not currently provided to provincial and territorial regulators. • Operational improvements to the enforcement function must also be introduced. For example, processes must be developed to enable access to enforcement information across the country. 	Medium
	Complaints and enquiries	<ul style="list-style-type: none"> • CSRA staff must be able to access complaints and enquiries information gathered by CSRA offices located across the country in order to be responsive to issues and concerns from investors and market participants. 	Medium
	Recognized and designated entity oversight	<ul style="list-style-type: none"> • Processes must be developed or modified to enable the timely recognition and designation of new entities that were not previously subject to oversight. 	Medium
	Non-enforcement litigation	<ul style="list-style-type: none"> • Processes must be developed to ensure that non-enforcement litigation (such as civil litigation) is managed in a consistent and timely manner across the country. 	Medium
	Registration	<ul style="list-style-type: none"> • Processes must be reviewed and updated as required to ensure that, for example, once a firm registers with its local CSRA office, it is registered in all jurisdictions regulated by the CSRA. 	Low

Category	Process	Rationale	Change Complexity
Advisory business processes	Regulatory risk management and market intelligence	<ul style="list-style-type: none"> To effectively contribute to the integrity and stability of the financial system, the CSRA must establish a market intelligence function and involve staff from across the Regulatory Division to monitor and assess potential systemic risks. 	Medium
	Legal advisory	<ul style="list-style-type: none"> Processes must be changed to ensure that legal advice provided to CSRA leadership and core business functions reflects the new powers contained in the Proposed Act. 	Medium
Enabling business processes	Information management and information technology	<ul style="list-style-type: none"> The CSRA must be able to use information management as a key enabler of effective communication across all office locations. For example, the CSRA's internal portal and video conferencing will support the CSRA's organization design, which includes the distribution of key leadership roles across the country. Given the new information management requirements, new processes will be required. Processes to ensure that all records can be managed in a manner consistent with federal legislation will be required before launch. 	Medium
	Finance	<ul style="list-style-type: none"> New financial management processes must be established to support the new funding model and fee structure and to ensure appropriate oversight of financial assets. 	Medium
	Human resources	<ul style="list-style-type: none"> Employees must be transitioned smoothly to the new organization, and essential employee services such as compensation and benefits must be operating effectively at launch. 	High
	Strategic planning and performance management	<ul style="list-style-type: none"> Strategic planning, as well as the development of the CSRA's performance management system, must be in place prior to launch to ensure that appropriate strategic direction and management reporting can occur. 	Medium
	Public and international affairs	<ul style="list-style-type: none"> Providing a unified voice for capital markets regulation is a key benefit of establishing the CSRA. Processes to enable a consistent and coordinated approach to engaging with stakeholders inside and outside of Canada must be in place. Working with other financial agencies will be critical for the CSRA to effectively contribute to the integrity and stability of the financial system. 	Medium
	Document and records management	<ul style="list-style-type: none"> National standards and practices must be in place by launch to meet provincial, territorial and federal requirements for document and records management. 	Medium

9 Information Management

The vision of an integrated, national organization must be supported by the effective use of information management. Both regulatory functions and adjudication depend heavily on the appropriate collection, storage, maintenance, analysis and dissemination of data and information.

The CSRA will also need to take advantage of technical capabilities to support the effective communication and management of information throughout the organization and to enable staff to collaborate. New aspects of regulatory activities, such as the expanded enforcement function and the mandate to contribute to the stability of the financial system, also require specific support.

While the information management strategy during transition will focus on the minimum requirements necessary for launch, the CSRA is expected to embrace new technologies to improve a range of activities following launch. It will also develop tools that will allow it to be outward-looking, accessible and transparent to investors and market participants.

This chapter sets out the principles underlying the prioritization and implementation of new technologies and information management capabilities; an assessment of existing technologies and capabilities of participating regulators; and a description of the priorities for launch.

The Transition Office will work closely with participating regulators, expert consultants and others during the implementation phase to manage the transition and develop the required information management capabilities.

9.1 Principles

Exhibit 14 details the principles guiding the Transition Office's assessment of the information management capabilities that will be required by the CSRA and the approach to implementing those capabilities.

9.2 Current Environment

The information management landscape across the participating jurisdictions is highly complex, with a mix of custom-built applications, shared services, commercial software packages and third-party service providers.

The information management environments are a combination of stand-alone, dedicated information management departments within the regulatory bodies, and, for most participating jurisdictions, services that are shared with government ministries. All provinces and territories use the Canadian Securities Administrators national systems, including the System for Electronic Document Analysis and Retrieval (SEDAR), the System for Electronic Disclosure by Insiders (SEDI), and the National

Exhibit 14: Information Management Principles

Information Management Principle	Description
Client service	<ul style="list-style-type: none">• Providing effective client service will be a priority.
Support of business needs	<ul style="list-style-type: none">• Delivering solutions to support business needs and priorities. In particular, information management systems will seek to support effective internal communication.• New investments during the implementation phase will be limited to those areas that are clearly necessary to support the launch of the CSRA.
Leveraging existing capabilities	<ul style="list-style-type: none">• Existing capabilities will be used wherever possible.• Strategic, long-term improvements will be deferred until after the launch.
Leveraging national systems	<ul style="list-style-type: none">• Updates to the Canadian Securities Administrators national systems will be sought to support the CSRA.

Registration Database (NRD). In addition, among the participating jurisdictions, the British Columbia Securities Commission and the Ontario Securities Commission have dedicated internal information systems and third-party service providers that the CSRA will likely need to adopt. The participating jurisdictions also have systems and tools to support core business processes such as registration, enforcement, compliance, and prospectus and disclosure reviews. Many of these systems have customized functionality that will need to be assessed in detail during the implementation phase.

9.3 Information Management Priorities

The CSRA will have both new and enhanced requirements, including a national communications infrastructure, distributed collaboration tools (such as a content management system), new market intelligence capabilities, integrated and expanded corporate and regulatory systems and new systems to support the adjudication of cases within a national organization. Accordingly, it will require expanded information management capabilities.

Given the complexity of the new requirements and the need to maintain on-going operations during the implementation phase, the Transition Office conducted a preliminary analysis to determine information management priorities in accordance with the principles outlined above. Based on these principles, the following priorities were identified as being critical to the successful launch of the CSRA:

- **A public website:** A public website will be developed so investors, market participants and other stakeholders can access information about the CSRA and its regulations, policies, programs, decisions and orders.
- **Internal information management and collaboration:** To support the CSRA's distributed decision-making structure, an intranet will be developed and deployed to serve as a collaboration and knowledge-sharing platform. A single email system will be implemented to allow efficient communication and interaction. A

national video-conferencing capability will be provided to promote communications among offices. A national records and document management system will also be implemented. Processes and systems to ensure that all records can be managed in a manner consistent with federal legislation will be required before launch.

- **Regulatory processes:** The Transition Office will seek to work with the owners of the Canadian Securities Administrators national systems to update these systems to support the CSRA. Local systems will continue to support local regulatory processes and will remain largely unchanged for the launch of the CSRA. However, a consolidated view of these business functions, including complaints and enforcement activities, as well as an integrated search capability and reporting process, will need to be developed.
- **Canadian Securities Tribunal systems:** A single set of systems will be developed to support the Tribunal and ensure nationally coordinated and consistent processes for scheduling and conducting hearings and producing and publishing decisions.
- **Enabling processes:** General management systems, including human resources, finance and procurement, will be operational prior to launch to support the new organization. Solutions used by participating regulators for human resources, finance, procurement and document and records management will be extended to support the CSRA. The CSRA will continue to outsource services that most participating regulators outsource, such as payroll.
- **Underlying technical infrastructure:** The CSRA will require the technical infrastructure to support national operations. This includes a wide-area network to connect the CSRA offices across the country, local networks for many offices and a single telephone system. The existing data centres will be leveraged and capacity will be added as required. Local technical support will

be provided with a combination of existing information technology service desks, local service windows and virtual support. This infrastructure will allow the CSRA to provide easily accessible, single points of contact for investors and market participants via both email and telephone. It will also enable staff to access information that resides in different offices, which will make operations much more effective.

Other changes will be deferred until after the launch of the CSRA, including:

- **System standardization and integration:** Rationalizing and standardizing local systems that support regulatory functions will give the CSRA the ability to generate accurate and complete operational data and will minimize overhead costs.
- **Standardized information management:** Transferring all participating regulators' historical records and documents into the CSRA's corporate electronic records and documents management system will give staff across the country access to historical information, allowing them to do their jobs more effectively.
- **Increased capability:** Expanding functionality and introducing new services and technologies will enable the CSRA to build on its initial capabilities. This will be the case especially for the market intelligence and financial system stability functions.

10 Fee Design

Securities regulators across Canada levy a complex range of fees that are confusing and cumbersome for Canadian businesses. These fees cover the costs of operations and, in some jurisdictions, return a surplus to provincial or territorial governments. In contrast, the integrated, efficient structure that is part of the vision for the CSRA allows for a simplified fee structure that will reduce compliance costs and lighten the administrative burden for businesses operating in multiple jurisdictions.

This chapter describes the principles that will guide the fee design aspects of the transition; gives background on current funding practices across provinces and territories; and outlines the high-level model that the Transition Office will use to determine the fee structure and schedule that it will recommend to the CSRA's board.

During the implementation phase, the Transition Office will undertake a detailed review of the fees market

participants pay across jurisdictions. This data will be used to develop the CSRA's fee methodology, which in turn will inform the development of the CSRA's fee schedule.

10.1 Principles

Exhibit 15 sets out the principles that will guide the design of the new fee structure.

10.2 Current Funding Practices

The fee structures used by the participating jurisdictions vary considerably. For example, larger jurisdictions use a mix of direct and indirect fees. Smaller jurisdictions use only direct fees. Existing fee schedules are complex and it is difficult for businesses to determine the correct fee amount, especially when filing or licensing is requested in multiple jurisdictions. Not only do the number of different fees vary by jurisdiction, each type of fee varies in amount by jurisdiction. Exhibits 16 and 17 provide an indication of the complexity of the fees that are in place today across Canada.

Exhibit 15: Fee Design Principles

Fee Design Principle	Description
Simplicity	<ul style="list-style-type: none"> There will be one fee schedule and fewer categories of fees.
Reasonableness	<ul style="list-style-type: none"> Changes in fees as a result of the implementation of a new fee model will be reviewed to ensure they do not unduly shift the fee burden.
Competitiveness	<ul style="list-style-type: none"> Fees will not create barriers to entry and will be internationally competitive.
Consistency	<ul style="list-style-type: none"> Rules and principles that determine fees will be applied consistently to entities with similar characteristics.

Exhibit 16: Number of Direct Fees by Category per Jurisdiction

	Jurisdiction												
	BC	AB	SK	MB	ON	QC	NB	PE	NS	NL	YT	NT	NU
Registration	3	2	4	5	3	8	3	2	5	5	4	3	3
Distribution filings	9	8	10	9	10	6	13	5	12	8	6	8	8
Continuous disclosure filings	5	3	4	3	—	3	5	2	6	4	1	1	1
Other applications	13	8	6	12	8	5	15	1	3	8	2	1	—

Exhibit 17: Fee Category Descriptions

Fee Category	Description
Registration	<ul style="list-style-type: none"> Annual direct fees charged to market participants to sell or advise on securities. For example, Alberta charges two different fees based on type of market participant, whereas Quebec charges eight different fees based on type of market participant and category of registration.
Distribution filings	<ul style="list-style-type: none"> Direct fees charged to securities issuers to file documents related to capital-raising activities such as prospectuses and rights offerings. For example, New Brunswick and Nova Scotia charge fees for multiple disclosure filings, such as technical reports, directors' circulars and offering memoranda, whereas other jurisdictions only charge fees for major disclosure filings such as prospectuses and exemption applications.
Continuous disclosure filings	<ul style="list-style-type: none"> Direct fees charged to public companies and mutual funds to file financial statements. For example, the British Columbia Securities Commission charges fees for annual and interim financial statements, while these activities in jurisdictions such as Ontario, Nunavut and Yukon are not subject to fees.
Other applications	<ul style="list-style-type: none"> Direct fees for late filing and other miscellaneous fees. For example, jurisdictions such as British Columbia and Ontario charge late filing fees, but other jurisdictions, such as Nova Scotia and Prince Edward Island, do not.

In general, the current provincial and territorial funding models fall into three broad categories:

Filing fees: Under the filing-fee model, direct fees are charged to market participants for individual regulatory filings, such as for registration, distribution and continuous disclosure filings. This model is currently used by securities regulators in New Brunswick, Newfoundland and Labrador, Nova Scotia, Northwest Territories, Nunavut, Prince Edward Island, Saskatchewan and Yukon. Filing fees provide a simple and predictable revenue stream. All regulated entities pay the same fee amounts for specific activities. The correlation between costs of regulatory effort and fees is limited, however. Given the fixed nature of such fees, there is also limited potential for revenue growth without fee or activity increases.

Filing fees plus percentage of proceeds: This model includes direct fees charged for all filings, except for prospectus filings, which also include an additional percentage of proceeds indirect fee. This model is used

by securities regulators in Alberta, British Columbia, and Quebec. The model maintains the simplicity and predictability of the filing-fee model, and provides a link to capital-raising market activities, which affords the opportunity to build an operating surplus (for fee stabilization) in periods of high market activity. In general, this model has provided relative fee stability over the past decade.

Filing fees plus participation fees: This model includes direct fees charged for most filings, and a progressive, tiered indirect fee based on revenue for firm registrants, and market capitalization for issuers. This model is used in Ontario, where the Ontario Securities Commission also maintains a fee stabilization reserve. In Ontario, fees are set for three years with no flexibility to adjust them during the period. Filing fees (known as activity fees in Ontario) are intended to reflect the regulatory effort expended in respect of specific filings, whereas participation fees are set to cover the cost of a broad range of regulatory services that cannot be attributed to individual activities or entities.

Since participation fees are charged to both firm registrants and issuers, this model allows for fee revenue growth based on increases in registrant revenue and issuer market capitalization. However, the model has significant volatility in the revenue stream due to its inherent correlation with market activity. As such, it may require significant fee reserves to be used as a buffer during downturns.

10.3 CSRA Funding Model

The CSRA will be funded by industry through a single, simplified fee structure. The CSRA will plan to break even over a business cycle, while maintaining a sufficient fee stabilization reserve. There will be one fee schedule that applies across the jurisdictions that participate in the CSRA and fewer fee categories than exist today, which will result in a reduced regulatory burden and expected lower compliance costs for market participants.

Based on the work undertaken by the Transition Office to date, we recommend that the fee structure include a combination of direct and indirect fees to best give effect to the principles set out in Exhibit 15 above. The precise nature of these fees will be determined following a more thorough assessment during the implementation phase.

Direct Fees

The CSRA fee structure will include the direct fee component paid by regulated entities for specific services such as registration, prospectus receipt and required reporting. The establishment of a new fee schedule will provide the opportunity to simplify and streamline the types and descriptions of filing fees currently in place in provinces and territories. In determining the appropriate fees, the CSRA will develop definitions and descriptions of the activities that will attract a filing fee, and a methodology for calculating individual filing fees.

Indirect Fees

The fee structure will also include indirect fees that cover the general costs of the regulator. Based on existing provincial and self-regulatory organization fees, indirect fees could be based on proceeds of capital-raising, market capitalization, number of registered employees, revenue or assets under administration.

The structure may include other fees to cover activities such as late filing and documentation requests. The aim is to develop a fee structure that is easy to understand, familiar to market participants and avoids nuisance fees for miscellaneous transactions.

11 Initial Regulations

Minimizing the disruption to investors and market participants during the transition process and ensuring continuity requires that initial regulations under the *Securities Act* be in place by the launch date. Such regulations must be familiar to the market so as not to require undue adjustment and to support a smooth transition.

The Transition Office, in consultation with stakeholders, will work to prepare an initial set of regulations that complement the core, fundamental provisions of the Proposed Act. These initial regulations will primarily be derived from existing national instruments and provincial and territorial rules. New regulations will be developed for substantially new areas in the Proposed Act. A new regulation will also be developed to deal with transitional issues as described in Chapter 12 (Regulatory Transition and Legal Continuity). Once the CSRA is operating, it will be able to begin a process to update, streamline and, where necessary, strengthen and supplement these initial regulations.

This chapter sets out the principles and approach that will guide the Transition Office in developing the initial set of regulations for review and approval by the board following adoption of the *Securities Act*. In order to develop these regulations, the Transition Office will have to work closely with participating jurisdictions and other stakeholders.

11.1 Principles

Exhibit 18 describes the principles that will guide the Transition Office's approach to developing the CSRA's initial regulations for adoption by the CSRA's board.

11.2 Approach

The implementation phase will focus on ensuring that the CSRA has regulations in place to fulfil its mandate. The priority for the launch of the CSRA is to have regulations in force that cover all areas of regulation, rules supporting the Tribunal hearing process and a regulation ensuring a seamless transition from the current provincial and territorial regulations and rules. Implementation activities related to regulation and rule-making will focus on four main areas:

- **National Instruments:** With a view to ensuring a seamless transition and minimizing disruption for market participants, the CSRA will adopt the provincial rules (national instruments) that are already harmonized and those rules will become CSRA regulations under the *Securities Act*. The Transition Office, in consultation with participating jurisdictions and other stakeholders, will also work towards resolving the non-harmonized elements in the national instruments. To the extent this work is not completed by the time the CSRA is launched, the Transition Office will recommend a process to resolve any outstanding issues.

Exhibit 18: CSRA Regulation Design Principles

Regulation Design Principle	Description
Minimizing external market impacts	<ul style="list-style-type: none">• The Transition Office will minimize the impact of the initial set of regulations on market participants by primarily using existing national instruments and provincial and territorial regulations and rules.
Transparency	<ul style="list-style-type: none">• The Transition Office will be transparent in developing and consulting on the initial proposed regulations for adoption by the CSRA. The Transition Office will seek public comment on all substantive changes to existing regulations.

- **Provincial and Territorial Rules and Regulations:** CSRA regulations will need to be developed for areas that are not currently harmonized. This will require a review of multilateral instruments, local rules and provincial and territorial statutory provisions. One significant area will be related-party transactions, which are regulated only in a few provinces. In addition, mutual fund self-dealing provisions and exemptions for local economic development programs, which vary across provinces and territories, will be reviewed and addressed.
- **New CSRA Regulations:** New CSRA regulations will need to be developed for areas in the Proposed Act that are substantially new. The most significant area will be derivatives, for which the Proposed Act provides a new, flexible framework.
- **Canadian Securities Tribunal Rules of Practice and Procedure:** Rules with respect to the proceedings, practice and procedure of the Tribunal need to be developed to ensure a consistent approach to the hearing process across the country.

12 Regulatory Transition and Legal Continuity

During the transition to the CSRA, key priorities will be ensuring that the regulation of Canada's capital markets continues without disruption and that service levels for investors and market participants are maintained.

This chapter outlines the principles and approach that will guide the Transition Office in developing appropriate mechanisms to preserve legal continuity. The Transition Office will work in close consultation with participating jurisdictions and other stakeholders to do so.

12.1 Principles

Exhibit 19 describes the principles that will guide the transition of on-going regulatory operations from provincial and territorial regulators to the CSRA.

12.2 Approach

While there are a number of functions that will contribute to the successful launch of the CSRA, special emphasis will be placed on determining the most appropriate and effective legal successorship model for the CSRA to ensure the continuity of adjudicative and regulatory functions and existing liability before and after the launch. In addition, a significant amount of work will be done to develop strategies and plans to ensure that activities being

conducted by the provincial regulators continue. Such activities include:

- outstanding filings, including exemptive relief applications, registration applications and prospectus filings;
- previously issued provincial decisions, including exemption orders, and those involving registrations, recognitions, reporting issuer status and prospectus receipts;
- all reviews underway, including compliance reviews, reviews of a self-regulatory organization or its by-laws, and continuous disclosure reviews;
- enforcement orders and processes (including active investigation orders, investigations and hearings);
- civil and administrative proceedings and liabilities; and
- agreements and undertakings entered into by and with the provincial regulator (such as foreign memoranda of understanding, information-sharing agreements, and settlement agreements).

Exhibit 19: Regulatory Transition and Legal Continuity Principles

Regulatory Transition and Legal Continuity Principle	Description
Minimized delays	<ul style="list-style-type: none"> Any material delays in processes that are underway (such as registration applications, prospectus reviews, exemptive relief applications, compliance reviews, investigations and hearings) will be minimized.
Seamless transition	<ul style="list-style-type: none"> Enforcement of provincial and federal laws and the performance of regulatory responsibilities should not be adversely affected.
Continuity	<ul style="list-style-type: none"> The impact of the transition on current market participants will be minimized.

It is important to ensure the seamless transition of these activities to the CSRA. This will include developing a new regulation to transition existing provincial activities. Additionally, it will be important to ensure that provincial laws in place at the relevant time will continue to govern activities undertaken prior to the launch of the CSRA. This includes allowing actions for civil liability and violations of provincial law that occurred prior to launch to be brought under the provincial law in existence at the relevant time.

For each of these functions, the Transition Office will compile a list of on-going activities and develop a strategy and plan to ensure that they continue after the launch of the CSRA. Any necessary legal mechanisms will be detailed in a transitional regulation. The Transition Office, in consultation with participating jurisdictions, will also consider whether provincial legislation is required to preserve activities and liabilities.

13 | Implementation Planning

The Transition Office and the participating jurisdictions will need to work together closely to complete the significant work required to launch the CSRA within the short timeframe established and with minimal disruption and adaptation costs for investors, market participants and their advisers. As part of its transition planning, the Transition Office has engaged in significant implementation planning to detail the specific tasks required to implement the transition and provide a complete and integrated view of the approximately 100 milestones and 350 deliverables that need to be completed to establish the CSRA. An additional 13 milestones and 26 deliverables have been identified for the period following the launch; these represent some of the stabilization and harmonization tasks that will need to be undertaken.

This chapter provides a summary of the principles that underlie our implementation planning; a summary of critical milestones and implementation planning assumptions; an approach to transition management; a summary of the effort required to transition to the CSRA; and a broad approach to stakeholder engagement during the transition process.

13.1 Principles

The implementation planning performed by the Transition Office was guided by the same principles that underlie the whole of the Transition Plan, as described in Chapter 1 (Introduction). It is also informed by the more specific implementation planning principles set out in Exhibit 20.

13.2 Critical Milestones

There are 14 critical milestones, which form the critical path of the implementation plan. These critical milestones reflect the key tasks that must be completed to move the transition process forward. Significant delays in beginning or completing work related to any of these milestones may make a July 2012 launch unrealistic.

Among the first critical milestones is the signing of the Development Agreements, described in Chapter 1 (Introduction). These agreements will provide for participating jurisdictions to continue to work with the Transition Office and participate in developing the CSRA. To meet the launch date, these agreements must be completed by the fall of 2010.

Exhibit 20: Implementation Planning Principles

Implementation Planning Principle	Description
Risk minimization	<ul style="list-style-type: none">Emphasis will be placed on limiting risks to on-going regulatory and adjudicative operations during the implementation phase.
Targeted investments	<ul style="list-style-type: none">Investments will be targeted to promote effective service delivery and the smooth transition of staff.
Collaboration	<ul style="list-style-type: none">The Transition Office will actively engage participating jurisdictions in key stages of the implementation efforts.
Communication	<ul style="list-style-type: none">Communication throughout the implementation will be frequent to ensure that stakeholders are aware of key developments. (For example, the Transition Office will develop an intranet to communicate with staff in participating regulators.)
Flexibility	<ul style="list-style-type: none">Implementation planning will have the flexibility to accommodate the participation of all securities regulators in Canada.

Once the Development Agreements are in place, development teams that include staff from the participating regulators will be assembled. Under the oversight of the Transition Office, these teams will carry out the activities and tasks required to execute the Transition Plan.

Exhibit 21 presents a high-level view of the CSRA's implementation planning including the critical milestones and the associated timelines.

Exhibit 21: Implementation Planning – Timing of Critical Milestones

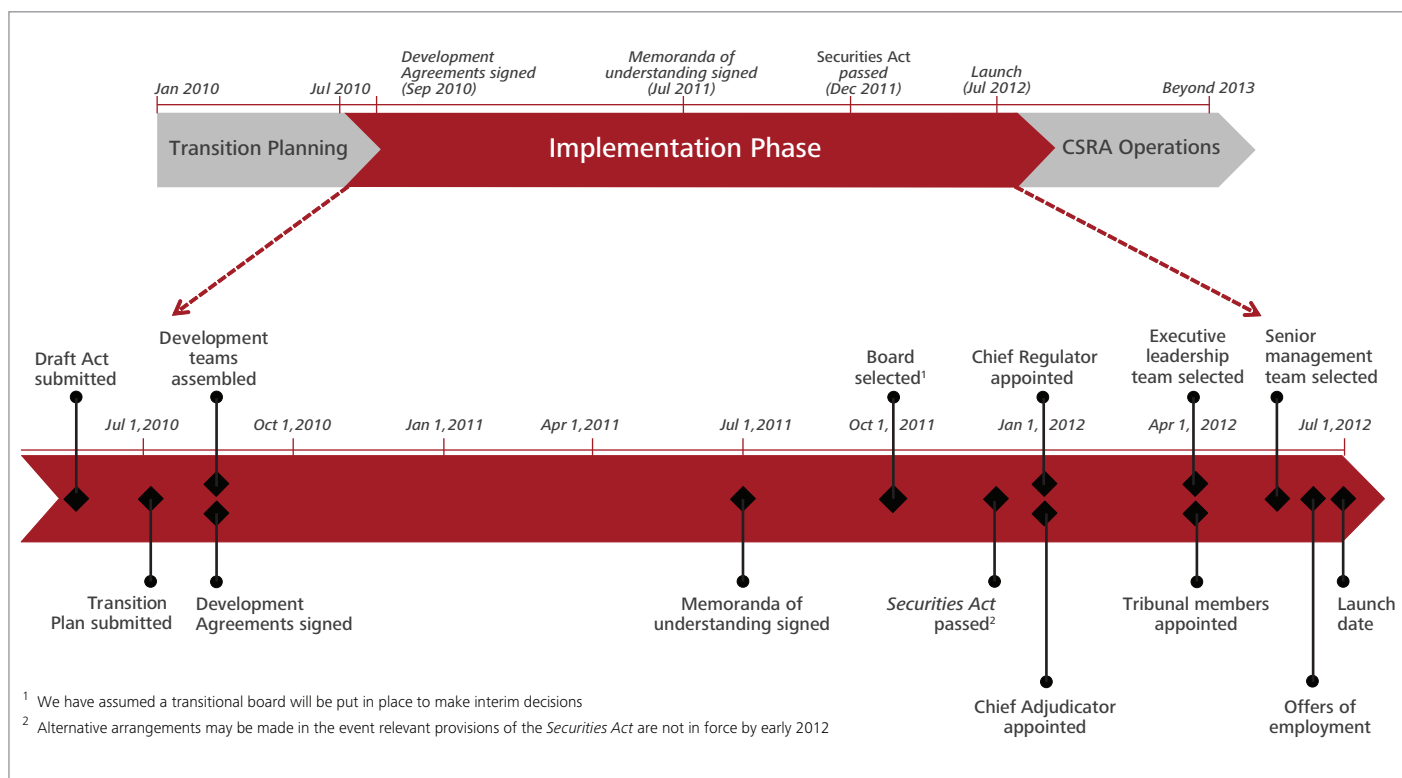


Exhibit 22 describes each of the critical milestones in more detail. The date associated with each milestone in the exhibit represents the latest possible date for achievement of the milestone if the launch date is to be met.

Exhibit 22: Implementation Planning – Description of Critical Milestones

Critical Milestone	Summary Description
Draft Act submitted	<ul style="list-style-type: none"> The Transition Office submits the Draft Act to the federal Minister of Finance (by May 2010).
Transition Plan submitted	<ul style="list-style-type: none"> The Transition Office delivers this Transition Plan to the federal Minister of Finance and to each participating jurisdiction (by July 12, 2010).
Development Agreements signed	<ul style="list-style-type: none"> Participating jurisdictions agree to continue to participate in developing the CSRA (by September 2010). Participating jurisdictions will also be asked to provide staff members to work on development teams on a full- or part-time basis, as well as provide access to the information that will be required to transition from provincial and territorial regulation to the CSRA.
Development teams assembled	<ul style="list-style-type: none"> Representatives from participating jurisdictions begin to work with the Transition Office and expert consultants as members of the various teams that will be responsible for implementing the transition (by September 2010). Such teams will include, for example, human resources, strategy and financial management, information management, and regulatory programs.
Memoranda of understanding signed	<ul style="list-style-type: none"> The Government of Canada and those provinces and territories that will participate in the CSRA on the launch date sign memoranda of understanding that represent the formal agreement to participate (by July 2011). Arrangements will be made for the CSRA to be bound by the terms of the memoranda of understanding, as appropriate. An interim Council of Ministers may be set up at this time to provide input in respect of the selection and appointment processes that will be undertaken. The Council of Ministers will be formalized with the coming into force of the relevant sections of the <i>Securities Act</i>.
Board selected	<ul style="list-style-type: none"> The Governor in Council, on advice of the federal Minister of Finance (in consultation with the Council of Ministers), appoints the board of directors following passage of the <i>Securities Act</i> by Parliament. It is likely that provision would have to be made for a transitional board to be in place prior to the relevant parts of the <i>Securities Act</i> coming into force (by October 2011). Such a transitional board would be responsible for making key decisions until the CSRA board is in place.
<i>Securities Act</i> passed	<ul style="list-style-type: none"> The <i>Securities Act</i> is adopted by Parliament and the CSRA is established as a Crown corporation on the coming into force of the relevant provisions (by December 2011).
Chief Regulator appointed	<ul style="list-style-type: none"> The board, with the approval of the Governor in Council on the recommendation of the Minister of Finance (in consultation with the Council of Ministers), appoints the Chief Regulator, who will assume responsibility for the Regulatory Division of the CSRA (by January 2012).
Chief Adjudicator appointed	<ul style="list-style-type: none"> The Governor in Council, on the recommendation of the Minister of Finance (in consultation with the Council of Ministers), appoints the Chief Adjudicator, who will assume responsibility for the Canadian Securities Tribunal (by January 2012).

Critical Milestone	Summary Description
Tribunal members appointed	<ul style="list-style-type: none"> The Governor in Council, on the recommendation of the Minister of Finance (in consultation with the Council of Ministers), appoints members of the Tribunal, who will be available to conduct hearings by the launch date (by April 2012).
Executive leadership team selected	<ul style="list-style-type: none"> The Chief Regulator, in consultation with the board, selects the other members of the executive leadership team, who begin to develop the CSRA's three-year strategic plan for approval by the board, and to work on other priorities, as determined by the Chief Regulator (by April 2012).
Senior management team selected	<ul style="list-style-type: none"> The executive leadership team hires the senior management team, which begins work on the priorities as defined by the executive leadership team (by May 2012).
Offers of employment	<ul style="list-style-type: none"> The CSRA issues offers of employment to employees of the regulators in those provinces and territories that are participating at launch and to others, as needed (by June 2012).
Launch date	<ul style="list-style-type: none"> Staff, initial regulations, business processes, information management systems, fee structure and other supports are in place and the CSRA begins operations (July 1, 2012).

13.3 Implementation Planning Assumptions

The Transition Plan and implementation plan were developed based on the following assumptions:

- After receiving a favourable opinion from the Supreme Court of Canada, the Government of Canada will introduce the Proposed Act in Parliament as a bill and, following the normal legislative process, Parliament will adopt a *Securities Act* in a form substantially similar to the Proposed Act. Requisite aspects of the Act will come into force in time to allow for all critical milestones to be achieved in time for a July 2012 launch.
- Jurisdictions that sign the Development Agreements will contribute staff time as required to support the transition.
- Securities regulators in jurisdictions that participate in the CSRA will substantially transfer their regulatory operations to the CSRA on the launch date.
- Any province or territory wishing to participate in the CSRA after the July 2011 memorandum of understanding milestone will be integrated as soon as practicable after the launch of the CSRA.

If the coming into force of the *Securities Act* is delayed, the Transition Office will work to otherwise meet critical milestones, if appropriate.

13.4 Transition Management

The implementation phase will be highly complex and will require sound oversight and management. During this phase, the Transition Office will continue to have overall responsibility for leading the transition. The Advisory Committee of Participating Provinces and Territories, the Participating Regulators Committee, and other advisers will continue to provide guidance, advice and support to the Transition Office on all key aspects of the transition.

In addition, the Transition Office will establish working groups that will include staff from the participating regulators to address key areas of concern, such as human resources, information management, strategy and financial management and regulatory programs. A program management office (within the Transition Office structure) will provide project management expertise and tools to ensure that milestones are achieved.

13.5 Effort Required

Execution of the Transition Plan will require a significant commitment of time and effort by many stakeholders.

In particular, the staff and management of the participating regulators will be asked to assist with developing the CSRA. These resources will ensure that the development teams have the capabilities to successfully launch the CSRA, and will be instrumental in the implementation of the CSRA. Staff will support implementation activities such as:

- developing CSRA strategic and business plans, regulatory standards and fee schedule;
- making necessary changes to information systems and business processes; and
- communicating with managers and staff regarding the transition.

The participating regulators, in aggregate, will be asked to make available approximately 20 staff members on a part-time basis and approximately six full-time staff from September 2010 to July 2012. The Transition Office will undertake detailed discussions with the participating jurisdictions to finalize the number and expertise of staff members each regulator can contribute.

The implementation will be supported by the use of external advisers with specialized expertise in areas such as human resources, telecommunications, executive search and communications. The Transition Office will also retain legal advisers to provide counsel and assistance as required.

13.6 Stakeholder Engagement

The Transition Office has engaged a variety of stakeholders in the drafting of the Proposed Act and the development of the Transition Plan. During the implementation phase, the Transition Office will continue to consult with the federal government, provincial and territorial governments, investors, market participants and other stakeholders regarding key aspects of the implementation efforts. In

particular, the Transition Office will engage in extensive discussions and coordination with the participating jurisdictions in the coming months.

Stakeholder engagement during the implementation phase will include providing information to market participants and investors on the Proposed Act and the Transition Plan. Resources will be dedicated to industry information and education during the implementation phase to help ensure that, by the time the CSRA is launched, market participants are aware of new or amended legislation that may impact them.

14 : Next Steps

This Transition Plan is our roadmap for establishing the CSRA. It sets out our vision for the new national regulator and its regulatory approach; the governance structure and organization design that will best support achievement of the vision; and the key components that must be developed and implemented for a successful launch.

In developing the Proposed Act and this plan, the Transition Office had the benefit of very valuable input from the Advisory Committee of Participating Provinces and Territories, officials of participating jurisdictions and staff of participating regulators. In the next phase of this initiative, we will need participating regulators to become more deeply involved, by providing more detailed information about their operations and making available the expertise of regulatory staff. We will also continue to seek input and advice from a variety of other stakeholders, and will engage expert advisors to ensure we have the information and skills needed to meet the operational challenges of concluding a successful transition.

The legislation that established the Transition Office gave us a three year mandate. This plan targets the launch of the CSRA by the end of that mandate, in July 2012. There is much work to be done over the next two years to further develop and implement this plan. Meeting that target date also depends on getting firm commitments from participating jurisdictions by July 2011 that they will take the steps necessary to integrate their regulators into the CSRA a year later, on the resolution of the legal proceedings regarding the constitutionality of the Proposed Act and on the adoption by Parliament of a *Securities Act* (in substantially the same form as the Proposed Act) by late 2011 or early 2012.

Although we cannot be certain that all of these pre-conditions will be met in time for the targeted July 2012 launch date, it is critical that work continue so that we are ready to launch the CSRA at the earliest opportunity. To defer the development and implementation work until all other matters have been resolved risks creating a protracted

period of uncertainty that would be detrimental to all stakeholders.

To begin the next phase of the transition project, we will invite provinces and territories to sign Development Agreements with the federal government to formalize their intention to continue to work with the Transition Office and participate in developing the CSRA. Under these agreements, participating jurisdictions will provide detailed information and assign regulatory and ministry staff to share their technical and operational expertise regarding the processes and functions required to establish the CSRA. We encourage jurisdictions to sign the Development Agreements by September 2010 to enable us to assemble the necessary development teams and begin working on the elements described in this plan.

Following the work under the Development Agreements, we will invite provinces and territories to enter comprehensive memoranda of understanding making a firm commitment to participate in the CSRA. These memoranda will address all matters of interest to the jurisdictions and the federal government. We aim to have the memoranda of understanding concluded one year in advance of the July 1, 2012 launch date, to provide the certainty and lead time necessary to complete the implementation.

We remain confident that we can achieve the ambitious undertaking outlined in this plan with the continued cooperation of participating jurisdictions, and look forward to the next phase of this initiative. Together, governments can create a fundamentally new organization dedicated to seeking the best outcomes for investors and market participants and giving Canada a competitive advantage in global capital markets.

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