

**NOTICE OF PROPOSED
ONTARIO SECURITIES COMMISSION RULE 31-509
(COMMODITY FUTURES ACT),
FORMS 31-509F1, 31-509F2, 31-509F3
AND COMPANION POLICY 31-509CP**

NATIONAL REGISTRATION DATABASE (NRD)

Substance and Purpose of Proposed Rule

The National Registration Database, known as NRD, is an initiative of the Canadian Securities Administrators (the "CSA"). NRD is an electronic database that will contain registration information for dealers, advisers and individuals. NRD is also a system that will allow registrants to electronically submit certain registration applications and notices to securities regulatory authorities and self-regulatory organizations over the Internet.

NRD filers will be able to use NRD to:

1. submit applications for registration by individuals;
2. submit changes to individuals' registration information;
3. submit information regarding firms' business locations;
4. submit information regarding non-registered individuals¹;
5. pay fees related to registration and NRD;
6. search for and retrieve registration information that is recorded on NRD.

An NRD firm filer will be able to view information that is recorded on the database in respect of itself. The current version of NRD does not provide the public with access to any information recorded on NRD. The CSA anticipates that a future version of NRD will make some registration information available to the public.

For a more detailed description of NRD, staff strongly encourage commentators to review the NRD Filer Manual, which is available at <http://www.osc.gov.on.ca/en/HotTopics/nrd.html#expanded>.

The proposed rules governing the electronic submission of registration information through NRD are set forth in the proposed Rule, three related Forms and a Companion Policy (collectively, the "proposed rules"). The proposed rules accompany this Notice.

Summary of Proposed Rule

The Rule sets out the principal requirements and procedures relating to the electronic submission of registration information.

NRD Submission Requirements

The Rule requires that the following registration information be submitted to the Director electronically using NRD:

1. Form 33-506F1 *Notice of Termination*;
2. Form 33-506F2 *Change of Individual Categories*;
3. Form 33-506F3 *Business Locations other than Head Office*; and
4. Form 33-506F4 *Registration Information for an Individual* and any changes to that information.

The use of these forms is prescribed under Rule 33-506, which is also being published for comment in this bulletin.

All NRD submissions must be submitted by an NRD filer through an authorized firm representative ("AFR"). An AFR is defined under the Rule as an individual who is authorized by a firm to access information and make submissions to the Director through NRD regarding the firm and individuals associated with the firm. (The NRD Filer Manual includes a chapter that provides a description of the role of AFRs.)

In order to use NRD, a firm is required to enrol, have one chief AFR, and maintain a bank account from which fees may be paid by electronic pre-authorized debit through NRD.

¹ The term "non-registered individual" is defined in proposed Ontario Securities Commission Rule 33-506 (*Commodity Futures Act*) Registration Information Requirements, which is published for comment in this bulletin.

NRD Enrolment

In order to enrol to use NRD a firm is required to send a completed Form 31-509F1 *Enrolment Form - Firm Filer* and a completed Form 31-509F3 *Account Holder Authorization* to the NRD administrator.

Form 31-509F1 requires an enrolling firm to identify the chief AFR appointed by the firm and the account that the firm will use to pay fees through NRD. This form must be delivered to the NRD administrator in paper format accompanied by a copy of the firm's incorporating documents and an NRD enrolment fee (described below).

In Form 31-509F3 the account-holder of the account from which a firm will pay fees through NRD will authorize the payment of fees by electronic pre-authorized debit. Staff expects that in most cases the account-holder will be the firm.

A firm may also be required to submit a completed Form 31-509F2 *Enrolment of Chief Authorized Firm Representative* to the NRD administrator. A Form 31-509F2 is not required if the chief AFR appointed by the firm is acting as a chief AFR for another firm.

Enrolment Fees

Firms will be required to pay a one-time fee when enrolling to use NRD. This fee must accompany the enrolment documentation submitted by the firm.

Firms that are already registered when this Rule comes into effect will be required to pay an enrolment fee based on the number of registered individuals with the firm, as described in the following schedule:

Number of registered individuals	Firm Enrolment Fee
3,000 or more	\$7,000.00
1,000 to 2,999	\$6,500.00
500 to 999	\$5,500.00
150 to 499	\$4,500.00
75 to 149	\$3,000.00
50 to 74	\$2,000.00
25 to 49	\$1,500.00
10 to 24	\$250.00
1 to 10	\$100.00
0 (e.g., international dealers)	\$750.00

Firms that are not registered when this Rule comes into effect and enrol to use NRD will be charged an NRD enrolment fee that is the same irrespective of the firm's size. Currently, an enrolment fee of \$500 is being considered.

Payment of Fees

The Rule requires that firms pay the following fees by electronic pre-authorized debit from the account identified in Forms 31-509F1 and 31-509F3:

1. any fee prescribed with respect to an NRD submission;
2. annual registration fees; and
3. annual NRD filer fees.

NRD submission fee

A firm will be required to pay, in addition to the fees currently prescribed under securities legislation, \$75 for each individual who is applying for registration in a single jurisdiction. For each additional jurisdiction to which the individual applies, the firm will be charged \$50. Upon submitting a Form 33-506F4 for a non-registered individual, a firm will be charged \$50 irrespective of the number of jurisdictions in which the firm is registered.

A firm will not be charged the NRD submission fee described in the preceding paragraph in respect of an individual applicant or a non-registered individual for whom a Form 33-506F4 is submitted prior to a December 15 if an annual NRD filer fee (described below) or an NRD submission fee has been paid by any firm in respect of that individual on or after December 15 of the prior year.

Annual NRD filer fee

On December 15 of each year, a firm will be charged an annual NRD filer fee. Under this fee a firm is required to pay \$75 for each registered individual sponsored by the firm and registered in a single jurisdiction. For each additional jurisdiction in which the individual is registered, the firm will be charged \$50. A firm will be charged \$50 for each of the firm's non-registered individuals irrespective of the number of jurisdictions in which the firm is registered.

The annual NRD filer fees and NRD submission fees are intended to cover the cost of developing and operating NRD.

Temporary Hardship Exemption

The Rule contains a temporary hardship exemption that will permit a submission to be made in paper format if technical difficulties arise that prevent the submission being made in NRD format. NRD filers that make paper format submissions under this exemption will be required to make the same submission in NRD format once the technical difficulties have been resolved.

Transition to NRD

Section 8.1 of the Rule defines several key dates for the transition to NRD. The data transfer date is the day on which the Director will commence the transfer to NRD of certain registration information that the Director currently maintains in electronic format. The significance of this date for a firm filer is that some registration information that is received in paper format by the Director after the data transfer date must be submitted electronically by the firm filer through NRD shortly after the firm is able to make NRD submissions. The NRD access date is the day on which a firm filer first has access to NRD to make NRD submissions. The NRD launch date is the first day NRD is available for any NRD filer to make an NRD submission. The effective date is the date on which the Rule comes into force. Also under this part, a transition firm is defined to mean a firm that is registered on the effective date or is not a registered firm on the effective date but has applied for registration before the NRD launch date.

Staff is currently considering two plans for the implementation of NRD. Under one plan, the Rule would come into force on September 1, 2002, the data transfer date would be October 7, 2002, and the NRD launch date would be October 28, 2002. Under the second plan, the Rule would come into force on November 15, 2002, the data transfer date would be December 16, 2002, and the NRD launch date would be January 5, 2003. Staff requests comment regarding when the implementation of NRD should occur.

Under Part 8, a transition firm must enrol to use NRD (described above under "*NRD Enrolment*") by the later of 5 business days after the effective date and the date that the firm has applied for registration.

Once a transition firm is enrolled and has access to NRD, it must ensure that the information recorded on NRD about each of its business locations is complete and accurate. The transition firm is required to do this within 15 business days of gaining access to NRD.

Under section 8.5, a registered firm is required to submit a completed Form 33-506F4 for each of the firm's registered individuals and non-registered individuals whose registration information was transferred to NRD by the regulator on the data transfer date. A transition firm is required to submit Forms 33-506F4 for these individuals according to the schedule set out in section 8.5.

Section 8.6 requires a transition firm to submit a Form 33-506F4 in NRD format within 15 business days of the NRD access date for each individual who was not a registered individual on the data transfer date, but who had applied in paper format for registration before the NRD access date. Section 8.6 also requires a transition firm to submit a Form 33-506F4 in NRD format within 15 business days of the NRD access date for each individual who was a non-registered individual before the NRD access date and about whom the Commission had not been notified by the data transfer date.

Section 8.7 of the Rule requires that a registered individual who submits a change to information previously submitted in the current Form 7 under section 8.5 of Rule 33-506 must submit Form 33-506F4 by the later of 15 business days after the NRD access date or the date that the individual submitted notification of the changes. Section 8.8 of the Instrument creates a similar requirement in respect of non-registered individuals.

Section 8.9 provides that if an application to change an individual's registration category has not been approved before the

data transfer date, the individual shall submit a completed Form 33-506F4 in NRD format within 15 business days after the NRD access date and a completed Form 33-506F2 within 1 business day of having submitted the Form 33-506F4.

Section 8.10 provides, for greater certainty, that a Form 33-506F4 that is submitted under the transition part of the Rule must be current on the date that it is submitted. This section is meant to ensure that NRD is populated with current data.

Under section 8.11, a transition firm is not required to submit a Form 33-506F4 in respect of an individual if the firm has already submitted a notice of termination in NRD format in respect of that individual.

Other Exemptive Relief

The Rule provides that the Director may grant an exemption to the Rule.

Effective Date

The Rule is currently scheduled to come into force on September 1, 2002.

Related Instruments

The Rule is related to proposed Multilateral Instrument 33-109 Registration Information Requirements and proposed Rule 33-506 (*Commodity Futures Act*) Registration Information Requirements and proposed Multilateral Instrument 31-102 National Registration Database (NRD), which are published for comment in this bulletin.

Regulations to be Amended or Revoked

The fee schedule will be amended to provide for NRD enrolment fees, annual NRD filer fees, and NRD submission fees.

Authority for the Proposed Rule

Paragraph 65 (1) 1 of the *Commodity Futures Act* (the "Act") authorizes the Commission to make rules prescribing requirements in respect of applications for registration and the renewal, amendment, expiration or surrender of registration and in respect of suspension, cancellation or reinstatement of registration.

Paragraph 65 (1) 23 of the Act authorizes the Commission to make rules requiring or respecting the media, format, preparation, form, content, execution, certification, dissemination and other use, filing and review of all documents required under or governed by the Act, the regulations or the rules made thereunder and all documents determined by such regulations or rules to be ancillary to the documents, including applications for registration.

Paragraph 65 (1) 29 of the Act authorizes the Commission to make rules varying the application of the Act to require the use of an electronic or computer-based system for the filing, delivery or deposit of documents or information to be filed under the Act, the regulations or rules made thereunder.

Paragraph 65 (1) 30 of the Act authorizes the Commission to make rules establishing requirements for and procedures in respect of the use of an electronic or computer-based system for the filing, delivery or deposit of documents or information.

Paragraph 65 (1) 31 of the Act authorizes the Commission to make rules prescribing the circumstances in which persons or companies shall be deemed to have signed or certified documents on an electronic or computer-based system for any purpose of the Act.

Paragraph 65 (1) 32 of the Act authorizes the Commission to make rules varying the Act to permit or require methods of filing or delivery, to or by the Commission, registrants, and others, of documents, information, notices or other communications required under or governed by Ontario commodity futures law.

Alternatives Considered

In proposing the Rule, the Commission has not considered alternatives to the adoption of requirements for the submission of registration information in electronic format.

Unpublished Materials

In proposing the Rule, the Commission has not relied on any significant unpublished study, report or other material.

Anticipated Costs and Benefits

The Chief Economist's Office of the Commission conducted an extensive survey of registered firms to determine the economic benefits of NRD to the industry. The results of the survey indicate that the expected benefit to registered firms over the first five years, discounted at a rate of 8% per year, has a present value of \$85 million. The present value of the projected cost of developing and operating NRD over the same five-year period is \$47 million. The annual NRD filer fees and NRD submission fees (described above) are intended to cover this cost. The survey results are available at <http://www.osc.gov.on.ca/en/HotTopics/nrd.html#expanded>.

The Commission believes that implementing NRD will provide significant benefits to registrants as well as to securities regulatory authorities by:

- permitting firms to send a single submission to multiple regulators
- permitting firms to view the registration information that they have submitted to regulators, which will allow firms to easily confirm that submissions they have made have been received and processed
- permitting firms to print certain reports, including an individual's Form 33-506F4
- automating processes that were previously manual (such as editing and validation checks), thereby permitting the Commission to focus regulatory resources on substantive review
- significantly reducing the volume of physical correspondence between registrants and regulators
- pre-populating forms with information already within NRD

In order to effectively use NRD to make NRD submissions, the hardware and software of a firm filer should meet or exceed the following specifications:

1. Personal computer with a 133 MHz Pentium processor and 32MB of RAM;
2. Internet connection and Hayes compatible modem with a minimum speed of 56,000 bps; and
3. Adobe Acrobat reader 4.x.

NRD will support the following internet browser software:

1. Microsoft Internet Explorer versions 5.0 and 5.5; and
2. Netscape version 4.7

Comments

Interested parties are invited to make written submissions with respect to the proposed rules. Submissions received by March 18, 2002 will be considered. As stated above, staff are particularly interested in receiving comment regarding when NRD should be implemented (see *Transition to NRD*).

Submission should be sent in duplicate to:

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 800, Box 55
Toronto, Ontario
M5H 3S8
jstevenson@osc.gov.on.ca

A diskette containing the submissions (in DOS or Windows format, preferably WordPerfect) should also be submitted. As the Act requires a summary of written comments received during the comment period be published, confidentiality of submissions cannot be maintained.

Questions may be referred to:

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Proposed Rule

The text of the proposed Rule, Forms and Companion Policy follow, together with footnotes that are not part of the proposed rules but have been included to provide background and explanation.

DATED: December 14, 2001