

**NATIONAL POLICY STATEMENT No. 49**  
**SELF-REGULATORY ORGANIZATION MEMBERSHIP**

**Part 1: Purpose And Background**

This Policy Statement applies to dealers that are not members of a self-regulatory organization (an "SRO"), as defined in this Policy Statement, but that are affiliated with an SRO member provided that those affiliated dealers carry on business in more than one jurisdiction and that otherwise fall within the definition of "national dealer". This Policy Statement responds to the concern of the securities regulatory authorities that those dealers should be members of a self-regulatory organization and contribute to the Canadian Investor Protection Fund ("CIPF"), the national contingency trust fund for clients of SRO member firms.

In May, 1989 the Canadian Securities Administrators (the "CSA") created the National Regulatory Working Group, which tabled its Final Report on "Capital, Financial Reporting and Audit Requirements for the Securities Industry" in December, 1989. Among the recommendations contained in that report is one which would require certain dealers to become members of an SRO.

SRO membership has been voluntary to date. SRO members participate in CIPF. CIPF is the primary insurance fund for investor protection with respect to failed securities firms in Canada and it covers losses of securities and cash balances, within prescribed limits, suffered by clients of a participating firm in the event of that firm's insolvency. Participation in CIPF carries with it the responsibility of financing CIPF through regular levies assessed on participating firms. These levies are based on the firm's level of activity in the capital markets, i.e. gross revenues.

There are substantial benefits involved in an SRO system of regulation. An SRO system helps to ensure compliance with regulatory requirements and also helps to provide consistent application and interpretation of the rules, to the extent that they are harmonized. The CSA remain concerned that dealers that are SRO members not carry on any of their securities or securities-related business through affiliated entities that are not SRO members and that do not contribute to CIPF.

**Part 2: Interpretation**

In this Policy Statement:

“adviser”, “affiliate”, “company”, “financial intermediary dealer”, “limited market dealer”, “mutual fund dealer”, “real estate securities dealer”, “securities”, “securities issuer”, “scholarship plan dealer”, and “trade”, in respect of the application of this Policy Statement in a jurisdiction, have the meaning, if any, assigned to those terms in the securities legislation of that jurisdiction.

"dealer" means a person or company who trades in securities in the capacity of principal or agent and who is, or is required to be, registered pursuant to the securities legislation of a jurisdiction to carry on its trading activities. For the purposes of this Policy Statement, an adviser who holds client funds, securities or other assets will be considered a dealer.

"national dealer" means a dealer, other than a restricted dealer, that is an affiliate of an SRO member where:

1. the dealer carries on business in more than one jurisdiction;
2. the affiliated SRO member carries on business in more than one jurisdiction;  
or
3. the dealer carries on business in one jurisdiction and the affiliated SRO member carries on business in another jurisdiction.

“jurisdiction” means a province or territory of Canada.

“restricted dealer" means a dealer that is registered with restrictions as to the classes or categories of securities in which it may trade or that is registered as a financial intermediary dealer, limited market dealer, mutual fund dealer, scholarship plan dealer, real estate securities dealer or a securities issuer.

"self-regulatory organization" or "SRO" means, for the purposes of this Policy Statement, any of the following:

1. the Investment Dealers Association of Canada;
2. a District Council of The Investment Dealers Association of Canada which has been recognized by a securities regulatory authority in Canada;
3. The Toronto Stock Exchange;
4. the Montreal Exchange;
5. the Vancouver Stock Exchange; or
6. the Alberta Stock Exchange.

## **Part 3: Self-regulatory Organization Membership**

### *3.1 Implementation*

The securities regulatory authorities have concluded that it is in the public interest that, absent unusual circumstances, national dealers be members of a self-regulatory organization and contribute to CIPF. Commencing June 30, 1993 the securities regulatory authorities, in determining whether to register or permit the registration of a national dealer, will consider whether that national dealer is a member of a self-regulatory organization and contributes to CIPF.

### *3.2 Transition*

After June 30, 1994, the securities regulatory authorities, in determining whether to renew the registration of any national dealer which was a national dealer on June 30, 1993 will consider whether that national dealer is a member of a self-regulatory organization and contributes to CIPF.

Quebec, with respect to each dealer which is a national dealer on June 30-11993, the Commission des valeurs mobilières du Québec will consider, after June 30, 1994, whether it national dealer is a member of a self-regulatory organization and contributes to CIPF.