
Insider Trading and Front Running CSA's Passport 2 System

June 2007

Presentation to Adviser Forum



BRITISH COLUMBIA
SECURITIES COMMISSION

Agenda

- Background
- Insider Trading and Front Running Changes
- Passport 2 – what and how?
- Concerns and Benefits re Passport 2
- What happens if Ontario is not in
- Timing for Passport 2
- Comparison with US regulation

Background

- Sept 04 – passport MOU
 - all provinces (except Ontario)
- Sept 05 – passport phase 1 (MI 11-101)
 - Implemented in all provinces but Ontario
- April 06 – Securities Amendment Act 2006
 - Passport Tools
 - Insider Trading and Front Running Changes
- March 07 – passport phase 2 (draft NI 11-102)
 - Comment period expired June 8

Insider trading and front running changes

- **Insider trading prohibition**
 - Applies to all publicly traded issuers
 - Prohibits recommending or encouraging
- **Expands front-running prohibition**
 - Market-moving orders from any investor
 - Prohibits recommending or encouraging
 - Not limited to personal gains
 - Defences for front-running
- **Expands civil remedies for insider trading**
- **In effect this fall**

What is Phase 2 Passport?

- Single window access for public companies and investment firms across Canada
 - Deal only with principal regulator
 - With limited exceptions, comply only with harmonized laws
- Streamlined system can be in effect in just over one year

How does it work - generally?

- Principal regulator (PR) for each market participant
- Market participant deals with PR to get decision in all participating jurisdictions to
 - Clear prospectus
 - Register as dealer, adviser or representative
 - Obtain exemption

How does Phase 2 passport work for existing registrants?

- Automatically transferred to passport
 - Unless opt out
- Harmonized law applies
 - Few local requirements
- Same terms and conditions in all jurisdictions based on terms and conditions in principal jurisdiction
- Can add new jurisdictions by filing simple form with PR
- Still pay registration fees in all appropriate jurisdictions

How does Phase 2 passport work for new registrants?

- File application only with PR, Include simple form for registration in other jurisdictions
- Harmonized law applies
 - Few local requirements
- 1 regulator
 - Reviews application
 - Decides whether to register, automatic registration in all requested non principal jurisdictions
 - Imposes any terms or condition, same terms and conditions in all participating jurisdictions
- Pay registration fees in all appropriate jurisdictions

How does Phase 2 passport work for discretionary relief applications?

- Only covers applications for exemptions
- File application and pay fees only to PR
- 1 regulator
 - Reviews application
 - Decides whether to issue exemption order
- Automatically exempted from same provision in other jurisdictions
 - Must be equivalent requirement in non-principal jurisdiction
 - Can add additional jurisdictions and get automatic exemption by giving notice of new jurisdiction to PR

What are concerns re Phase 2 Passport?

- Fees in all jurisdictions (except for discretionary relief applications)
 - Government process to address fees after Phase 2 implemented
- Lack of consistency
 - CSA made commitment for consistent interpretation and decisions
- Doesn't improve enforcement
 - Enforcement improvements through other processes

What are benefits of Phase 2 Passport?

- **Simpler**
 - Only 1 decision
 - Comply only with harmonized laws (subject to limited exceptions)
- **Faster**
 - Deal with 1 regulator
 - No opt out periods
- **Cheaper**
 - For discretionary relief, only fees to PR
 - Eliminate professional fees for different laws and multiple regulators

What happens if Ontario not in?

- Other provinces will implement anyway
- Unclear if Ontario market participants will benefit

Passport 2 compared to U.S. System

- For small adviser firms
 - Register just with states
- For all adviser representatives
 - Register with states
- For issuers
 - If securities not covered, register with states

Timing

- Comment period ended June 8
 - Target effective dates for advisers
 - Same as national registration rule, targeting July 08
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Summary

- Insider Trading and Front Running Prohibitions
 - Expanded prohibitions
 - Broader civil liability for insider trading
 - In effect this fall
 - Phase 2 Passport
 - Significant improvement – within a year
 - Invite Ontario to participate
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Questions?

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