

Backgrounder: Agreed Elements of a Cooperative Capital Markets Regulatory System

The Ministers of Finance of British Columbia, Ontario and Canada have agreed to establish a cooperative capital markets regulatory system and invite Ministers responsible for securities regulation in all provinces and territories to participate in the cooperative system that includes the following elements:

- The cooperative system will have a common regulator administering a single set of regulations designed to protect investors, support efficient capital markets and manage systemic risk. The regulator will be responsible for policy development and regulation-making, regulatory operations, enforcement and will have a separate and independent adjudicative tribunal.
- A uniform Act adopted by each participating province and territory will address all of the areas that the securities legislation of the provinces currently addresses.
- A complementary federal Act will address criminal matters and matters relating to systemic risk in national capital markets and national data collection.
- The regulator will administer both the provincial and federal Acts under authority delegated by each participating jurisdiction.
- Accountability to the legislative bodies of participating jurisdictions will be through a Council of Ministers of all participating jurisdictions, which will oversee the cooperative system.
- The regulator will be directed by an expert board of directors appointed by the Council of Ministers, based on recommendations from an independent nominating committee. Directors will be independent, have relevant capital markets-related expertise and be broadly representative of the regions of Canada.
- The regulator will have an independent adjudicative tribunal appointed by the Council of Ministers, based on recommendations from an independent nominating committee. Adjudicators will be independent and will have capital markets-related and adjudicative expertise.
- The processes for nominating and appointing directors and adjudicators will be merit-based and in accordance with the highest standards of corporate governance.
- The Council of Ministers will be responsible for proposing legislative amendments for the cooperative system and reviewing regulations proposed by the board of directors.
- The regulator will have an executive head office located in Toronto and a nationally integrated executive management team.
- The regulator will have a regulatory office located in every participating province. Each office will have staff, expertise and resources that are commensurate with the capital markets activity and regulatory and enforcement demands of the participating jurisdiction. The regulatory offices will deliver consistent regulation in a way that is responsive to the interests and sensitivities of Canada's regions and market sectors. Each regulatory office will continue to provide the services that it does today with local decision-making authority within national standards.
- The regulatory offices will be part of the nationally integrated management team and will contribute to policy development and provide insights into the needs, interests, and

perspectives of the local regulatory offices, investors, market participants and other stakeholders in their regions.

- The organization design and culture of the new regulator would be guided by principles that include the following:
 - Regional and market sector perspectives should be weighed and considered in major policy and operational decisions by including regionally based staff in developing policy approaches and operating priorities and processes.
 - The regulator should foster an environment that helps recruit and retain in all offices talented and qualified staff who will embrace the vision for the organization and work to fill its mandate.
 - The regulator should promote a culture of innovation that values ideas and perspectives from all offices and from other sources (including investors, market participants and other stakeholders) that contribute to delivering better and more cost-effective regulation.
- A single, simplified fee structure will be designed to allow the self-funding of the regulator and will not impose unnecessary or disproportionate costs on market participants.
- The federal government will provide transitional funding to those provinces and territories that will lose net revenue as a result of transitioning to the cooperative system.