

**NOTE FOR AN ADDRESS BY**  
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## A. INTRODUCTION

Good day everyone. I am pleased to address this meeting organized by the Enforcement Counsel Training Committee of the Investment Dealers Association of Canada. I would like to welcome to Québec all of you from across Canada.

The financial sector is of major importance to the Québec economy, not just in terms of jobs but also because of its contribution to all the other sectors. Therefore, how it is regulated must strike the best balance between developing this sector and protecting investors. In an increasingly global environment, regulatory decisions can no longer be made in isolation.

First, I would like to illustrate the importance of the financial sector to the Québec economy.

According to a recent survey by the *Institut de la statistique du Québec*, the financial sector employs nearly 150,000 people in Québec. If we add the self-employed and their associates, it is clear that this is an important industry in terms of job creation.

In the overall economy, the financial industry accounts for approximately 6.2% of Québec's total Gross Domestic Product, which means that it is also an

important generator of wealth. Therefore, we understand the importance of developing this sector and making sure that it works well.

Securities and the distribution of financial products and services are very dynamic areas of activity in Québec. Brokerage and investment firms employ a large number of people across the province, and tens of thousands of representatives and advisers provide consumers with the information they need to make smart choices about the financial products and services that meet their needs.

I cannot speak about the importance of the financial sector in Québec without mentioning the part played by the Montréal Exchange, which has experienced outstanding growth in recent years. Because of this remarkable success and the current trend towards consolidation of stock markets, other exchanges are casting an acquisitive eye on the Montréal Exchange. The Government of Québec is watching developments closely and its priority is to keep the expertise and high value-added jobs associated with stock market activities in Montréal.

In a recent speech, the Minister of Finance said: "Montréal must retain its status as a stock exchange centre and its expertise in the derivatives sector. I firmly believe that we must bank on the enormous potential of the derivatives market in order to pursue Montréal's development as a financial centre. With compound annual growth of the order of 26% over the past

five years, it is easy to see why its influence extends beyond Canada's borders."

The success of the financial services industry benefits Québec and helps develop its economy. A strong financial industry also supports university faculties and specialized schools that train the brains needed to occupy high value-added positions, which is the true wealth of a 21st century economy.

*B. Investor protection and the development of the financial sector*

In regulatory matters the Government must be very tactful in order to maintain an appropriate balance between developing the financial sector, protecting consumers of financial products and services, and complying with global trends.

In this regard, I wish to briefly discuss a few legislative and regulatory initiatives that are already underway as well as certain considerations we must keep in mind.

Several of the legislative initiatives are related to the **reform of securities regulation** being undertaken jointly with the other provinces and territories in Canada. In a few minutes, I will speak at greater length about this reform, which is very important for Québec and includes the implementation of the securities passport system and the harmonization and simplification of regulations aimed at giving issuers and dealers easier access to markets

across Canada. As of now, I will point out that in December 2006 the National Assembly passed Bill 29, which brought in the mutual recognition mechanisms needed for the passport implementation. Last spring the Minister of Finance also introduced Bill 19, which provides for a new civil remedy on the secondary market, similar to that adopted by other provinces including Ontario. We are also working on developing new legislative provisions that will implement the registration reform in Canada, with all the provinces and territories, as soon as the Canadian Securities Administrators have completed their consultations on what these future regulations will contain.

The Department of Finance is also working with other Government of Québec departments and agencies as well as industry and academia to prepare a bill respecting the transfer of securities, harmonized with the laws of other provinces, which should be introduced in the near future. In the current context, where stocks and other securities are often held indirectly, we must review the legal basis of the transfer of ownership of these securities, which the other provinces have already done or are preparing to do.

Secondly, following the consultation in the National Assembly by the Committee on Public Finance concerning **investor protection**, the Department of Finance, in collaboration with the Autorité des marchés financiers or AMF, intends to implement several of the recommendations in the Committee's preliminary report which was released in February 2007. Among other things, the Department is working with the AMF to develop

legislative provisions such as strengthening criminal penalties for offences under laws governing the financial sector, improving the provisional administration systems provided for in these laws and broadening the AMF's investigative powers. These provisions should improve enforcement of financial sector laws and bolster investor confidence, which is crucial for the development of financial markets.

Finally, proposed legislation for the regulation of derivatives is also on the drawing board. Up-to-date legislation will provide an optimal framework allowing the Montréal Exchange and market participants to move forward.

### *C. Reform of the securities regulatory framework*

This brings me to a subject that is a current priority in Québec, namely securities regulation in general, and more specifically the securities passport adopted by the provinces and territories.

The securities regulatory system in Canada has been criticized, particularly in recent years, by people who would like Canada to create a single body to regulate securities. What these people forget – sometimes deliberately, I think – is that during this same period the provinces and territories have made major improvements to the securities regulatory framework in Canada, as a result of unprecedented cooperation between them.

Critics of the current system maintain that the Canadian system suffers from many ills, and that a single regulator would cure them all. At every opportunity, they mention a smorgasbord of arguments that are closer to myth than reality. For example, we hear people say that Canada is the only country that does not have a single securities regulatory body, that in Canada issuers and dealers have to contend with 13 regulators and comply with 13 different sets of regulations, and that securities commissions are unable to put fraud perpetrators behind bars. I will come back to this constant refrain in a few minutes.

Contrary to what the single regulator proponents claim, international bodies think that the securities regulatory system in Canada is one of the best in the world. Two cases in point: the Organisation for Economic Co-operation and Development (OECD) and the World Bank recently put Canada near the top of their lists. For example, in 2006 the OECD published a study in which Canada ranked second out of 29 countries in investor protection, ahead of the United Kingdom and the United States, two countries that are frequently cited as securities regulation models. Another study released by the World Bank in 2007 puts Canada fifth out of 175 countries, also in investor protection.

As I said before, the provinces and territories have made a serious effort in recent years to improve the current system. I think it is important to talk about this as, unfortunately the financial press in Toronto, which is a major source of financial information for the entire country, does not talk much about this reform of the securities regulatory framework in Canada.

As you probably know, in 2004 all of the Canadian provinces and territories, with the exception of Ontario, signed a memorandum of understanding aimed at reforming the securities regulatory system and, more specifically, implementing a securities passport system.

The objective of the passport system is to allow issuers to access all capital markets in Canada but deal only with the securities regulator in their principal jurisdiction and comply only with that regulator's listing requirements. Similarly, dealers or representatives wanting to do business across Canada must register only with the regulator in their principal jurisdiction, and only that jurisdiction's registration requirements apply. All the requirements will be highly harmonized if not uniform.

Incidentally, I should tell you that for the moment at least, the passport system does not include oversight of the exchanges. However, to allow regulators to perform their recognition and oversight duties efficiently and in compliance with the various laws in place, an agreement respecting the oversight of exchanges has been reached by Canadian securities administrators with a view to setting up a system similar to a passport.

Under this agreement signed in 2003 by regulatory authorities in British Columbia, Alberta, Manitoba, Ontario and Québec, one regulator is primarily responsible for authorization and continuous oversight of each of the exchanges and quotation and trade reporting systems. The other



regulators give these entities exemption from recognition and rely on the lead regulator for all oversight activities while reserving the right to comment or raise serious concerns with the lead regulator if necessary.

I will now return to the main topic.

The passport system is the result of unparalleled cooperation between the provinces and territories. It eliminates the irritants associated with the existence of multiple jurisdictions while ensuring that each province and territory maintains its jurisdiction over securities, which is vitally important for its economy and to protect its investors. The system is based on the mutual recognition of decisions by the lead regulator in a highly harmonized legislative and regulatory environment. Thus a visa issued by the AMF will enable a Québec issuer to invest anywhere in Canada without having to obtain another visa, except in Ontario, at least for the moment. However, although Ontario has not joined the passport system, the other regulators are prepared to recognize the decisions of the Ontario Securities Commission, which means that an Ontario issuer will have to obtain a visa only from the OSC and comply only with its regulations.

The harmonization and simplification of securities regulations is the other important objective of the memorandum of understanding signed by the ministers in 2004. The ministers set a tight timeline to harmonize, if not standardize, existing laws and regulations, so that reporting entities know

where they stand. And I might point out that, although Ontario did not sign the 2004 agreement, it is a very active participant in this initiative.

*D. Myths and realities*

As I said earlier, some people question the value of the proposed reform by the provinces and territories and repeat some great myths to justify the creation of a single securities regulator in Canada.

The most frequent criticism is that Canada is the **only industrialized country that does not have a single regulator**, so that Canadians have to deal with 13 regulatory bodies and **comply with the regulations of 13 jurisdictions**. I'm sure it's not news to you that the SEC is not the only regulatory body in the United States. There are State commissions that also regulate security transactions. You also know that Canadians already have mechanisms that allow them to deal only with the regulatory authority in their principal jurisdiction, like the Mutual Reliance Review System for prospectuses, and to file a prospectus only once through SEDAR. The passport system is based on these existing mechanisms, and is in fact an improved version of them since it will cover all aspects of regulating securities.

Another frequent criticism is that, unlike in the United States, securities commissions in Canada cannot **put fraud perpetrators behind bars** and that a single regulator would be more effective in this regard. On this point, first I will say that the primary role of a securities regulator is to protect

investors by putting an end to fraudulent practices as quickly as possible. To make fraud charges stick, evidence must be gathered following very strict procedures. This usually takes a long time and is done by the police and Crown prosecutors, working as much as possible with securities regulators. Therefore, those who are not happy with the limited results in terms of securing fraud convictions should look at the criminal investigations and prosecutions rather than at the securities regulators.

Without limiting our responsibility in this regard, I remind you that criminal justice is a federal responsibility. I would also point out that in the high-profile cases like Enron and Worldcom in the United States, where we saw senior executives led off to prison in handcuffs, the convictions were the result of criminal investigations conducted by state prosecutors, and not by the SEC or any other securities commission. It is also interesting to note that in the United States, less than 10% of the actions brought are initiated by the SEC.

At a meeting in June, the ministers responsible for securities regulation asked the federal Minister of Finance to talk to the federal Minister of Justice about ways to improve enforcement of the Criminal Code in Canada and in particular to increase the RCMP's effectiveness in dealing with financial fraud. As you know, no system can completely prevent financial scandals. We only have to think of Worldcom, Enron and Tyco International in the United States, a country that is constantly cited as an example by the single regulator supporters. Québec is ready to participate in any initiative that encourages collaboration between different police forces, securities regulators

and prosecutors to improve the success rate of fraud investigations. It is the concerted efforts of all these players that will make law enforcement more effective and not the creation of a huge, highly-complex securities commission.

Another myth that we have been hearing for some time is the argument that a single regulator is **necessary to establish a securities free trade agreement** with other G7 countries. I would respond to this by saying that, according to Canadian and foreign observers, the best way to achieve a free trade agreement is to base it on mutual recognition. And the passport system developed by the provinces and territories is based precisely on this concept of mutual recognition. You will agree with me that it seems contradictory to be in favour of free trade and mutual recognition internationally, but be opposed to it within Canada's borders.

In any event, Canada, through certain securities regulators, already participates in a form of mutual recognition with the United States. I am talking about the agreement between the SEC and Canadian securities commissions, known as the Multi-Jurisdictional Disclosure System. This system allows Canadian issuers who register their securities in the United States by and large to use documents prepared in Canada to comply with American regulations.

Another myth given out by the single regulator proponents is that, in regulatory terms, the current system is too slow to react to market

developments. In response, we could well maintain that having multiple jurisdictions is an advantage in this regard. We should remember that the financial scandals in the United States were followed by the adoption of the Sarbanes-Oxley Act, which placed severe constraints on issuers. This had a negative impact on the American market because some companies chose to privatize or register on the London Stock Exchange rather than in the United States. In Canada, the response to the American initiative has been debated many times by securities administrators. The end result was the adoption of Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings, a more considered version that is better adapted to the Canadian context.

There are other myths that are often brought up by proponents of a single regulator but I will end with this one: the **costs of the present system are unreasonably high**. First of all, we know the costs of the existing system while we know nothing about the costs of a hypothetical single regulator. And we must ask ourselves the following question: How can we seriously claim that a structure that has a strong organization in each province, as well as a head office in Toronto, Ottawa or elsewhere that is responsible for directing and coordinating 13 regional offices, will result in a less expensive cost structure than the current decentralized system?

Concerning costs, a study done by Professeur Suret of Université Laval showed that, in the case of an initial public offering, it is not the direct costs that make up the greatest part of the regulatory costs paid by market

participants. It is the underwriter's costs and the cost of the legal, accounting and administrative services required to comply with the regulations. The underwriter's costs are totally independent of the regulatory structure while the compliance costs have been significantly reduced by the efforts made by the provinces and territories to harmonize regulations through the passport system.

#### *E. Conclusion*

To conclude, I wish to reiterate the Government of Québec's real interest in the financial sector and its future in Québec and Canada, and the Government's determination to complete the securities regulatory reform, working closely with other Canadian jurisdictions.

We are in favour of real solutions to real problems. The passport system is a realistic way to make significant improvements to the current system. As the proverb says, a bird in the hand is worth two in the bush. The passport system is a reality. It will soon be fully in place. A single regulator is an expensive pie in the sky that induces many people to cast discredit on the Canadian regulatory system. The Government of Québec wants to complete this reform and continue moving forward.

Thank you for your attention and enjoy the rest of your day.