



INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

Canadian securities regulation: Single regulator or the passport system?

**A Speech by Ian C.W. Russell
President and Chief Executive Officer
Investment Industry Association
To the Montréal Economic Institute
March 20, 2008**

You're putting Pierre and me to a tough task. We have to explain why the passport system or the common regulator system is the best way to regulate the securities industry.

In 10 minutes!

But I think the Montreal Economic Institute was wise to set a 10-minute limit. So much of this debate has become clouded in detail. I'm not going to offer a lot of comparative data to beguile you. I don't want to lose sight of the forest for the trees. The question that matters is: What is best for investors, the industry and the country at large? I am convinced that the answer to that question – for all provinces – is a common regulator.

La question qui importe est la suivante : Quelle est la meilleure solution pour nos investisseurs, notre industrie, et notre pays en général ? Je suis convaincu que la réponse à cette question – pour toutes les Provinces – est un organisme commun de réglementation.

I'm not going to argue that Canada needs to move to a common regulator because everyone else has one. Every country is unique; every market demands the form of regulation that is right for it.

The reason Canada needs a common regulator isn't because it works for the rest of the world. It is because it will work best for Canada.

Le Canada n'a pas besoin d'un organisme commun de réglementation sous prétexte que cela fonctionne dans le reste du monde. Il en a besoin parce que ce sera la meilleure solution pour le Canada.

As markets become more global, as both investors and companies become more mobile, it becomes more and more important to provide common Canada-wide

regulation. We can't allow companies to get trapped in a maze of overlapping rules and fees.

There is no doubt that our current system works well in many ways. But I don't believe we can simply say "if it ain't broke, don't fix it." In today's globalized, competitive world, we have to look at our regulatory system and say: Whether or not it is broke, we must improve it.

In fact, that is one point on which there seems to be a consensus: Whether one prefers a passport or a common regulator, we all recognize the need for reform.

So it isn't a question of whether Canada's regulatory system is failing to function. The IMF conducted an in-depth assessment of Canada's financial system, and found that it is "secure, sophisticated and well-managed." But it also found a need to eliminate gaps and overlaps among the provincial regulators, make more efficient use of resources, improve enforcement which is currently fragmented, and streamline policy development.

There is no doubt that the passport system is a step toward harmonizing regulation and improving efficiencies. But after all the time and effort it has taken to finally get this issue on the agenda, can we afford to opt for a half-way solution?

Can we afford to put off the benefits that a common regulator would offer?

1 / A common regulator would reduce regulatory costs. Un organisme commun de réglementation réduirait les coûts de la réglementation. Relative to domestic equity market capitalization, the cost of capital is more than one-and-half times as much as it is in the U.K. It is more than two-and-a-half times as high as in the United States.

No wonder. Canadian intermediaries and issuers pay 13 times for the same benefits that their counterparts only pay for once.

But that's just the tip of the iceberg. Beneath it lays the massive costs that the private sector must bear in complying with a set of 13 detailed securities rulebooks. A common regulator would eliminate these problems. The passport system won't.

2 / A common regulator would improve enforcement. Un organisme commun de réglementation améliorerait la mise en vigueur. It would bring improved coordination of investigations, access to increase funding for enforcement, and economies of scale in expertise. What's more, it would create new leverage to push for reform of the RCMP and the judiciary to improve the caliber of investigation and the rigor of punishment for white-collar crimes. The passport system won't. Le système du passeport ne le fera pas.

3 / A common regulator would also provide something else we need -- a system capable of responding swiftly to changing market conditions. A passport system harmonizes the rules as they are. But what happens when conditions change – as they do constantly in today's markets? We need a regulatory system that can adapt to changing capital markets, with timely responses, rule-making and policy development. Nous devons avoir un système qui peut s'adapter à des variations dans les marchés des capitaux avec un timing approprié dans les réponses, des réglementations et le développement de politiques. A cumbersome, unwieldy system cannot respond effectively – with or without a passport. A responsive regulatory system is needed.

4 / A common regulator would provide a national regulatory perspective on the capital markets. Un organisme commun de réglementation offrirait une perspective réglementaire nationale sur le thème des marchés des capitaux. The priority of the provincial commissions is to protect investors. By and large, they do a good job. But do they provide the national perspective we need on the marketplace – a perspective that helps to build markets and improve their efficiency? A common regulator can do that. The passport system can't.

5 / There is another thing that we cannot obtain from the current system – or a passport system: A clear national voice in international markets. Un autre objectif que nous ne pouvons obtenir, ni avec le système actuel, ni avec le système du passeport, c’est une voix claire et de représentation nationale sur les marchés internationaux. In a world of global markets, no country stands alone. Back in the days before the European Common Market became the EU, Henry Kissinger used to ask: “What number do I call to talk to Europe?” What number do foreign regulators call to talk to Canadian securities regulators? What’s more, who makes the call on behalf of Canada?

A common regulator would give Canada the unfettered ability to negotiate in the international arena. It would streamline policy development in response to global conditions and global forces that are not deterred by any border. The best way to compete is by acting as one market, not 13.

6 / What else would a common regulator give us? Accountability. Under the Crawford Panel’s recommendations, the proposed common regulator would report to the Council of Ministers. This wouldn’t be just a pro forma report to a Minister. The common regulator would have to lay out its annual goals and priorities at the beginning of the year – and meet them by the end of the year, or explain why it did not. That’s something we don’t get under the current fractured system. It’s something the passport system wouldn’t give us. It’s something we need.

7 / A common regulator would give us one other thing: The opportunity to shift to a regulatory system based on clear principles, relying on best practices – rather than a micro-minded approach governed by 13 detailed, unrealistic rulebooks.

A principles-based system of securities regulation makes a lot of sense for Quebec and the rest of Canada. But if it were governed by 13 different regulatory bodies it would soon become a regulatory Tower of Babel.

A common set of principles would soon be interpreted in 13 very different ways by 13 different regulators. What are the chances they would consistently arrive at common conclusions? Offhand, I'd say the odds would be about 13 to 1. The result would be a 13-sided Rubik's Cube – one that market participants would have to figure out.

A principles-based approach to regulation would be a mandate to regulate in a way that would create wealth. But to work it requires a common regulator.

These are some of the benefits a common regulator would provide. But let's be clear on some of the things a common regulator is not. Nous venons de couvrir certains des bénéfices qu'un organisme commun de réglementation nous apporterait. Mais soyons également clairs sur ce qu'il n'est pas.

1 / A common regulator is not a federal regulator. Un organisme commun de réglementation n'est pas un régulateur fédéral. It would be governed by a commission appointed by the participating provincial governments. No province would have a majority.

2 / A common regulator is not a centralized regulator. Ce n'est pas non plus un régulateur centralisé. Different functions can be performed in different parts of the country. For example, regulation of derivatives could be headquartered here in Quebec : par exemple, la réglementation des produits dérivés pourrait être basée ici au Québec. And small cap regulation could be based in Alberta.

3 / A common regulator wouldn't reduce provincial authority. It would preserve it. The Government of Quebec, for example, would have a clear say on regulatory policy throughout Canada.

4 / More than anything else, a common regulator means a common mindset. Mais au-delà de tout cela, un organisme commun de réglementation présuppose un état

d'esprit commun. It offers the opportunity for a common strategy to attract capital to Canada. The opportunity to achieve common savings for issuers, intermediaries and investors throughout Canada. And it would offer the opportunity for common improvements in enforcement and accountability – for Quebec, Canada, and all investors and issuers who depend on robust, well-regulated markets.

Thank you. Merci !