



Notes for a Speech by Mr. Raymond Bachand
Minister of Finance and Minister responsible for the Montréal region
Gouvernement du Québec

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Securities Commissions

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CHECK AGAINST DELIVERY

Today, I am pleased to welcome representatives of the various members of the International Organization of Securities Commissions as well as all the guests here today. Québec is honoured to host your annual conference for the third time.

I want to thank the chairman of the Autorité des marchés financiers, Mr. Jean St-Gelais, whose efforts led to this major event being held in Montréal this year.

As we are all aware, the world economy has been substantial turbulence over the last few years. The recent economic crisis has made us aware of flaws in some of our systems. This situation has put a spotlight on securities industry regulation and has once again demonstrated its real importance.

This is certainly not an easy industry to monitor, because it continues to evolve at a rapid pace. New products and new processes emerge remarkably quickly. Regulatory frameworks must adapt to these changes.

That is why events such as this conference are crucial. They are excellent opportunities to share views and reflect on the major issues regulators must address.

For my part, as Minister of Finance of Québec, I was honoured to accept the invitation to speak to you today. And it is with great pride, as Minister responsible for the Montréal region, that I welcome you to our beautiful city.

Perhaps you've already seen for yourself, and if not I hope you'll have time to do so before the end of this conference, but Montréal is a cosmopolitan city that offers a wide range of activities of all kinds.

In addition to being recognized as a prime tourist destination, with activities such as the FrancoFolies and the Formula 1 Grand Prix, Montréal stands out as a leading financial centre and the engine of Québec's economy. The city's ongoing financial development, particularly in derivatives, has earned us a significant place on the international financial scene.

We are working actively so that Montréal can compete with the world's best financial centres. Throughout the world, these financial centres are organizing. Many of them have grasped the economic importance of the financial sector as a generator of new jobs. And they are just as likely to have adopted very proactive measures to ensure their development. We are doing likewise.

For example, we offer a favourable tax environment to attract foreign financial transactions. We have also created a cluster for the financial sector that will be driven by the private sector. The mission of this collaborative organization will be to encourage the development and promotion of the financial sector in the city through better coordination among the industry's players.

It must be said that the public finances environment in Québec fosters economic development. I mentioned earlier the recent financial crisis and the turmoil the global economy has experienced in recent years. Québec has not been spared. However, we acted quickly, so that we are now well positioned to benefit from economic recovery. Indeed, we have already gained back all the jobs lost during the recession.

Among the actions we took to get through the crisis, we announced, in our last budget, an economic and budgetary action plan that will allow us to return to balanced budgets by 2013-2014.

This plan contains specific and practical measures to ensure a return to balanced budgets and reduce the debt. We are also in the process of studying draft legislation to implement the provisions of this plan.

Our approach is fair. Indeed, the state will supply over 60% of the effort to eliminate the deficit through spending restrictions, gains in efficiency in public bodies and measures to combat tax evasion. Individuals and businesses will provide the rest, in particular through an increase in consumption taxes.

Once the budget is balanced, the action plan includes measures to reduce our debt load. We will achieve this by capitalizing on our most abundant natural resource, water. Hydroelectricity has played a major role in the development of our economy, our regions and our society. The income from rate increases generated in this way is allocated entirely to reducing our debt; the ratio of debt representing accumulated deficits will be cut in half within fifteen years.

The current economic situation and debt levels of countries around the world make it imperative to take robust and responsible action.

However, in Québec, the budget will be balanced without slashing public services. In fact, we'll maintain almost 5% annual growth in health system funding, our single largest budgetary expenditure item. We can thus meet growing demand in this sector, particularly because of the aging population.

Restoring order to public finances will be one of the most pressing issues for states around the world over the next decade. In Québec, we have chosen to be a fiscally responsible government. We believe that acting now will help correct the situation in a way that is fair and balanced rather than drastic and unfair.

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The Québec government is proud of its responsible management of public finances. This same rigor is applied in the field of financial sector regulation. It must be admitted that the crises in the financial sector have severely tested the regulatory environment in recent years.

That's why we must highlight the good performance of Canada and especially Québec, which fared better than many other countries and jurisdictions.

The strength of our financial system certainly contributed to this situation. Our financial system is built on well-capitalized financial institutions and regulation that protects investors while remaining flexible enough for those involved in capital markets. I will return to this later.

Yet, despite the qualities of our system, the issues of the crisis we have just come through require that we act on several fronts.

Regulators around the world - like the governments that manage public finances for that matter - face particularly difficult tradeoffs. This is due to the representations of many pressure groups whose demands are often contradictory. Difficult and important decisions have already been taken, yet many others remain.

As Minister of Finance, the decisions I make primarily affect Québec's financial system.

The decisions of an organization like IOSCO, however, have an international scope. This responsibility is particularly challenging, as increasingly, the actions of participants in financial markets have consequences worldwide. This “globalization” of trade, if we may say so, ensures that both the financial markets and financial crises extend beyond borders.

In this new context, the interdependence of markets makes international cooperation indispensable to prevent future crises. Governments therefore need to innovate and implement the necessary legislative measures in light of the work and recommendations of international organizations.

Québec is at the forefront in this regard. For example, last fall, on the recommendation of the AMF, our government passed legislation to regulate the credit rating agencies. These provisions apply the IOSCO code of conduct in a way that is harmonized with other jurisdictions.

In addition, Québec, through the AMF, is involved in discussions with other regulators in Canada and abroad. These regulators discuss issues such as how to regulate hedge funds and over-the-counter derivatives.

In terms of legislative innovation, the Canadian provinces, especially Québec, can also be proud of their record. In particular, we set up a securities passport system.

Under the Canadian system, securities regulation lies within provincial jurisdiction and each province and territory has its own regulator.

To streamline matters for firms and persons registered for securities that do business in more than one Canadian jurisdiction, the provinces and territories have worked together and introduced an innovative system called the “passport”. Now, the same harmonized rules apply in all participating jurisdictions. So there is a NATIONAL system in Canada, even though it isn’t a centralized system.

The passport system was the result of an unprecedented cooperative effort among regulators and governments of Canada's provinces and territories. It is a good example of the results of cooperation in the field of securities regulation.

Everything indicates that the system we have set up works very well, since Canada performed well during the period of turmoil the world has just come through.

The passport system thus reinforces a regulatory framework that was already recognized worldwide. Indeed, many international organizations rank Canada among the best for quality of securities regulation and quality of investor protection.

I would like to give you another example of innovation.

In 2008, the Québec government passed a new law on derivatives. This law, which draws on the best legislation in the field, is the first of its kind in Canada. It addresses the oversight of all derivatives, both exchange-traded instruments and over-the-counter contracts.

In fact, the Derivatives Act requires that entities wishing to offer a derivative product to the public must first be recognized by the AMF. It sets out the obligations that such entities must satisfy. It also makes registration with the AMF compulsory for derivatives brokers and advisors. And it specifies the requirements that these brokers must meet, particularly regarding the management of their business, their conduct and that of their officers, representatives and employees.

This law gives the industry a clear legislative framework that meets its needs for flexibility and transparency. It thus affords investors and all users of derivatives the protection they need to trade these instruments.

The law also gives the regulator powers to intervene in the markets for over-the-counter derivatives to prevent fraud or manipulation, which the Securities Act does not. It also allows the AMF to intervene in the spot markets for underlyings.

Furthermore, we have been very active since 2005 in strengthening the oversight and intervention powers of the AMF. It should be noted that the regulatory activities of the AMF do not relate solely to securities. They also cover customer compensation and assistance, insurance and deposit-taking institutions, and the distribution of financial products and services.

Human and financial resources have been allocated to the AMF to improve fraud prevention and detection. In addition, the AMF has undertaken an extensive campaign to raise awareness among investors, in addition to intensifying efforts to make information available to more vulnerable customers.

These cases are merely examples among many. If we want a well-oiled system that runs smoothly, it is essential that stakeholders and regulatory bodies, whatever their jurisdiction, communicate with each other, harmonize their regulatory initiatives, and innovate.

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The regulatory system needs cooperation among the various authorities regardless of the legal model they administer. Indeed, this is emphasized in *Principles Regarding Cross-Border Supervisory Cooperation*, a document that IOSCO recently published. I was particularly struck by one of its passages, and I quote:

“While regulators have different supervisory approaches, each has a common interest in information-sharing and cooperation based on earned trust in each others’ regulatory and supervisory systems.”

This quotation expresses the crux of the issue of securities regulation.

In the current international context, regardless of what regulatory structure one prefers, the issue is coordination. Thus, what matters is the common goal of investor protection and economic development, and cooperation among various regulatory bodies.

It is crucial, I believe, that regulators in all sectors, whether banking, securities or the insurance industry, find a way to work in concert and exchange information when necessary.

That underscores the importance of organizations such as IOSCO, the Financial Stability Board, the G20 and so on. They are essential because they monitor international issues and develop policies and solutions to common problems. This, in my opinion, is a central component of the development of the global financial market.

To conclude, I encourage members of IOSCO to work towards the objectives of collaboration and information exchange they have set. It is a daunting challenge, but I remain convinced that cooperation is important if we are to overcome the challenges that lie ahead.

As for us, we will continue, with the AMF, to follow your work closely and we intend to continue our efforts to adopt and implement the best practices possible in the field of securities regulation.

In closing, I want to wish everyone a most successful 35th conference. And I hope you will have the opportunity, during your stay, to enjoy Montréal's attractions.