The Canadian Club of Toronto

"A Capital Journey"

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Check against delivery.

Thank you Helen for that kind introduction.

In fact, you covered the subject so well I have been busily deleting entire sections, which may not be a bad thing.

It is an honour for me to address the Canadian Club, where I have attended many stimulating presentations by distinguished speakers. So distinguished that I feel, to borrow from Malcolm Muggeridge, like a letter delivered to the wrong address.

From the material that is left, I want to talk to you about transformation – how Canada's capital markets have changed, how the IDA has transformed dramatically in response, what we are doing to face a dynamic and demanding future. And why all that matters to you as investors and market participants.

In 1995, when I joined the IDA, the Association had a narrower regulatory mandate and operated in a less demanding and lower profile environment, without official recognition as a self-regulatory organization or SRO. A staff of 77 oversaw the financial condition and business conduct of 105 investment dealers, about 60% of the total, as well as the over-the-counter debt and equity markets. Consumer redress was non-existent. The 4 Canadian stock exchanges – in Toronto, Vancouver, Calgary and Montreal - regulated the marketplaces they owned, as well as many investment firms.

Only about 1/3 of individuals were invested in the market. NASDAQ hit 1,000 in July. OJ Simpson put on the glove that didn't fit and was acquitted. The Federal Government launched an effort to build consensus for a Canadian Securities Commission. In other words, not everything changed, but let's leave that subject for the moment.

Today, half of all adult Canadians are invested in equity markets. Mutual fund assets grew five fold and TSX trading quadrupled.

All this reflects a shift in financial assets from bank and saving deposits to market sensitive vehicles, from CSBs (that's Canada Savings Bonds, remember them?) to

income trusts and hedge funds. Personal risk profiles are more exposed, without necessarily engendering a better understanding of the underlying risks. These changes have profound implications for politics, for policy and for the regulatory system.

In the past decade, the IDA's role been transformed. First, we assumed the balance of member regulation from the TSE, then the western exchanges and finally the Montreal Exchange. We also were recognized officially by securities commissions representing over 95% of market activity, formalizing our status as a SRO.

As our responsibilities increased, so have our resources. Today, 280 IDA staff regulate the entire securities industry - 200 firms and their 26,000 registrants – annually conducting nearly 50,000 hours of on-site financial and sales compliance audits and investigating some 1,300 complaints.

A decade ago clients unable to resolve a financial dispute with their brokers could only go to court – an expensive, adversarial, and time-consuming process. The IDA and its private sector partners have since launched a world-class consumer redress system.

In response to the huge growth in fund assets, the IDA helped create a new SRO, the Mutual Fund Dealers Association or MFDA to address a serious regulatory gap - the sale of funds by fund distributors. We were also involved in developing another SRO, Regulatory Services Inc. or RS to oversee regulation of the listed equity markets.

And to reflect Canadians' increased participation in our capital markets, the industry-sponsored Canadian Investor Protection Fund doubled its coverage of securities and cash to $1 million for each customer account.

It's been quite a journey, and as Bay Street moved to Main Street, securities regulation moved to the public domain. Investor advocates have found a strong voice, public expectations of regulators and SROs are high and growing, and governments are attuned to market issues as never before.

The dynamic nature of capital markets makes further change inevitable – in financial products, financing techniques and securities regulation. SROs have to anticipate change, and prepare for it. That's what drives the IDA.

For a long time 85% of our budget has been devoted to member regulation, including enforcement. But, throughout our 90-year history we fulfilled a dual mandate – as a SRO and as the representative of the securities industry. We pursued our public interest mission, enriched with expertise by industry participation in policy development. In practice, it worked effectively. But as the French have been alleged to inquire, "Well it may work in practice, but does it work in theory?"

Though we always put the public interest ahead of the interests of the industry, our dual mandate created a perception problem. In recent years, issues of independence and perceived conflicts loomed larger in the public mind. So we decided to act. Last December, IDA members voted overwhelmingly to end the organization's dual mandate. The IDA's exclusive focus is now self-regulation. A separate and independent trade association has been launched to represent the Canadian securities industry, unfettered by the public interest mandate of the SRO.

The historic decision to focus our mandate opened the door to SRO consolidation, an objective we have been advocating for several years. Canada's self-regulatory system is fragmented, with multiple SROs pursuing a variety of functions, some distinct, others related, all costly, and together highly confusing.

I am pleased that four months after our members approved our historic reorganization, we moved to advance that critical goal. This is transformation with a vengeance, but it was built on a decade of evolution and years of planning. To quote Eddie Cantor, "It takes 20 years to make an overnight success."

The IDA and RS will join forces in a national SRO that will regulate the securities industry and the equity and fixed income trading, a move that parallels the structure in most other developed markets.

This is a highly significant initiative. It will make a real difference - to investors and to the industry. We will be able to offer higher quality, more effective and more transparent national regulation.

The initial rationale for establishing RS was to address the fundamental conflict that exists when a for-profit stock exchange regulates the marketplace that it owns and also its competitors. That conflict, by the way, is why both the NYSE and NASD have come under intense scrutiny by the SEC. And it is why some US regulators are looking at the Canadian experience as a possible guide.

But the RS structure was a Canadian compromise, with the TSX Group retaining 50% ownership and the IDA acquiring the other 50%. Consolidation would represent the final step in eliminating this conflict of interest.

Assuming approval from the 2 Boards, IDA membership and the TSX, we will then request formal approval from the CSA or Canadian Securities Administrators. Isn't it amazing how many acronyms we use in the business?

Our position is that a single member and market self-regulator will be a real achievement in the public interest. It will strengthen self-regulation. It will allow us to take advantage of synergies, deal with regulatory gaps and overlaps, reduce investor confusion and bolster public confidence in the regulatory system.

We will draw on the strengths of both organizations, including the IDA's deep regional roots.

I have been asked whether the MFDA is next. The policy case for integration is clear – Currently, investors buying an identical mutual fund are protected differently depending on who sold it to them, costs are higher for firms that operate on both platforms and the system is unnecessarily confusing. So my answer is that further consolidation is desirable and indeed inevitable, but for the moment our focus is completing the IDA/RS transaction. When the MFDA is ready, there will be an opportunity to complete the task of consolidating self-regulation in Canada.

In the meanwhile, we are pursuing the mandate we share with the securities commissions – investor protection, market integrity and the efficiency and competitiveness of Canadian capital markets.

As we do so, we are transforming the self-regulatory role in a number of ways.

We must respond to investors' increased participation in markets and exposure to investment risk, by promoting fairness and transparency.

That means ensuring that retail investors get the information they need from their brokers, in a form that is easy to understand. Working with the CSA, we are developing rules to give clients more disclosure about the services they receive, the fees they pay and the performance of their investments.

At the IDA, our approach is to address regulatory problems with data that tells us the way things are, and the way things are going to be in the near future.

We spent the last five years developing risk models for financial and sales compliance, and electronic systems to collect data. For example, our Complaints and Settlements reporting system (ComSet) provides the number of resolved and pending client complaints, the time it takes to resolve them and the trend in the severity and frequency of complaints by firm, branch or individual and for the entire industry, on any given day.

Let me give you an example of how important that data can be. There is a new 2-year limitation in Ontario on the right to bring a civil action, so we need to be sure that clients are not being prejudiced while they try to resolve complaints with their brokerage firm.

Since ComSet began in October 2002, IDA member firms have reported 5,500 client complaints. As of 2 weeks ago, they had resolved almost 90% of those complaints, taking on average 3½ months. It's clear there is no systemic problem, but we are looking into exceptional cases.

ComSet not only provides data for informed regulatory policy, it also serves to direct our enforcement efforts to higher risk files. By combining information about complaints and infractions with analysis of the financial management of firms, staff can detect where the potential for regulatory offences may be highest, and propose changes to a firm's internal controls.

Before imposing benchmarks for client complaint handling on our members, we set them 4 years ago for our own complaints, investigations and prosecutions. And we're meeting them. I am unaware of any other SRO anywhere with accountability for quantitative performance benchmarks.

Transformation includes something else – fair and accessible consumer redress.

Investors who cannot resolve a financial dispute with their brokers now have a number of robust alternatives to the courts. They can apply to the Ombudsman for Banking Services and Investments without cost, for claims up to $350,000. Or they may opt for the independent arbitration system the IDA established for claims up to $100,000. Some investors are not satisfied with these alternatives and are seeking restitution from the regulators or SROs.

Clearly, a wrongdoer should not profit from his misconduct, and a victim should not suffer from it - and that is the basis of the law of restitution.

Our hearing panels may impose "any fit remedy or penalty," so the IDA can provide for restitution orders.

However, let me be very clear. Restitution is not a panacea. It can only be triggered when a regulatory infraction has been proven, which requires a higher burden of proof than a civil action. Also, regulatory proceedings frequently extend beyond the limitation of actions, which means if restitution were not granted, that would be the end of the road.

Looking forward, we intend to request our disciplinary panels to provide restitution in the following five circumstances:

1. When there are funds available.
2. When the loss is clearly attributable to the misconduct.
3. When the individuals entitled to restitution can be clearly identified.
4. When the amount can be readily ascertained.
5. When the funds can be easily and efficiently distributed.

These circumstances will not match many of the cases that come forward. But they are fair, clear, reasonable principles that can be implemented and that investors can respect.

Let me now offer a brief comment on our international role. Canada punches above its weight in the regulatory field, witness the leading role our securities commissions play at the International Organization of Securities Commissions (IOSCO) and elsewhere. That includes the IDA. We have built strong relationships with our counter-parts in the US, Europe and Asia and have played a leadership role in international organizations. It was a great experience for me to chair the SRO Consultative Committee of IOSCO, comprised of 50 SROs around the world. Next month, we will assume the chairmanship of the International Council of Securities Associations, which represents SROs and industry associations in the world's largest capital markets. This kind of presence reflects the sophistication of Canada's regulatory system, something forgotten in the debate about its structure.

Speaking of which, there are not many talks nowadays about Canada's regulatory environment, without at least an allusion to a Canadian securities commission. I am pleased to add to the discussion, in the spirit of Mae West who observed that 'Too much of a good thing can be wonderful.'

We have an extremely dedicated group of provincial regulators across the country – highly experienced and laboring heroically to make our uniquely decentralized system work better. Why is it then that so much effort, over such a lengthy period of time, has not brought us to where we need to be? The answer must be that the system permits incremental improvements, but discourages fundamental change. Nor is there yet the collective will among provincial governments to make it happen.

After my 13 years working within our regulatory and self-regulatory system, observing how other countries operate and how Canada is viewed internationally, several personal conclusions are inescapable. Canada's regulatory system operates at a high standard, in spite of, not because of its structure, which is viewed with bemusement by other countries. Fierce global competitiveness means a small market like Canada's must strive for maximum efficiency; we can't afford to be complacent. Regrettably, some observers are critical of Canada's enforcement record, pointing to our regulatory structure. Finally, there is momentum for fundamental change, be it evolutionary or revolutionary and a growing acceptance that regional interests can be addressed in a Pan-Canadian organization.

Purdy Crawford will publish his final report next month, based on Ontario Minister Gerry Phillips' vision of a single commission under provincial jurisdiction administering a single securities act, financed by a single fee structure. Ontario has effectively conceded the head office, a limited role on a Ministerial Council and meaningful regional centers. There is very little more to give. The virtue of patience can be overstated. If this proposal doesn't fly, some might conclude that it's time to make common cause with Ottawa and

set in motion an opt-in model. That could quickly lead to a result that everyone will wonder why we didn't achieve much earlier.

The transformation of the IDA has been an exciting journey. And this certainly isn't the last word on this subject. As Marcel Proust observed "All our final decisions are made in a state of mind that is not going to last". Markets will continue to evolve and play an increasingly important role in the financial lives of Canadians. The regulatory landscape must keep up and meet investors' changing needs. I think the record of the past decade demonstrates that Canada's SROs have the capacity to be partners in change, and the determination to be knowledgeable advocates for investors and fair markets.

Thank you. I would be pleased to take your questions.