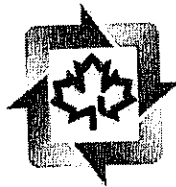


**"Canada-US Relations  
The Foundation of Secure North American Markets"**

**An address to  
The Canadian Club in Toronto  
May 5, 2003**

**Terrance K. Salman  
Chairman  
Investment Dealers Association of Canada**



**INVESTMENT DEALERS  
ASSOCIATION OF CANADA**

Thank you and good afternoon ladies and gentlemen.

Former Prime Minister Pierre Elliott Trudeau once described the process of managing our relationship with the United States as like being in bed with an elephant. Events of late might seem to suggest that our relationship has taken on all the aspects of trying to hug a porcupine. No matter how well intentioned we are...it's bound to hurt a little.

The fact that the US is about ten times our size, and the fact that our airwaves, fashion and cultural institutions are at times overshadowed by our larger neighbour, can leave us as Canadians feeling more like followers than leaders.

Yet Canadians are leaders in many areas. As innovators we took construction to new heights with the building of the CN Tower...oil exploration to new depths with the development of Hibernia...and it was Canada that gave the US space program its long-reach manipulator – the Canadarm. And, we recently innovated yet again...as for the first time a Canadian donned the green jacket at the Masters. Thank you Mike Weir.

Canada has played a lead – but often overlooked – role in building strong and secure linkages between the Canadian and US capital markets. We know better than most the importance of the free flow of capital between our two countries. We did not develop the largest bilateral trading relationship in the world by accident. It has developed because we understand the importance of unimpeded capital flows across our borders and the need for constant co-operation. Today, as Canadian companies become increasingly international in their reach, their need for access to US capital has never been greater. At the same time, Canadian investors require the depth and diversification that the US capital markets provide.

Recently, the comments by US Ambassador to Canada, Paul Cellucci, made headlines when he remarked that “security trumps trade”. His veiled threat could not have been clearer. However, I would like to say to Ambassador Cellucci, that I think he’s got it wrong. It’s not that ‘security trumps trade’...“security is trade”. You simply don’t do

business with people you don't trust...and there is a long history of trust and cooperation between our two countries when it comes to economic and market issues.

Geographic proximity alone does not explain an annual bilateral trade value, which is now the largest trading volume of any two countries in the world and exceeds \$371 billion dollars. What does explain it, is a continuing focus on ensuring that our markets are secure, equitable and open. As trading partners we have long understood that our future is built on long-term cooperation, not confrontation.

You don't need a business degree to know that the global capital markets are under attack. The longest bear market since the depression and poor corporate profitability are more than enough to justify gloom. Add to this, corporate corruption, unreliable financial statements, terrorist attacks and war and its no surprise that investors are nervous. While we cannot control world events, Canadians have worked cooperatively with our US counterparts to build secure and reliable markets. In many cases, Canadian initiatives have led the way and continue to do so.

Following the terrorist attacks of 9/11, there was a renewed focus on shutting down the financial pipeline used by terrorists. Prior to attack on the World Trade Center, Canada had already significantly strengthened our laws governing money laundering. While this took place before the introduction of the US Patriot Act...what is truly significant is that Canadian and American enforcement units are working together to share information as we eliminate money laundering in our capital markets.

When the World Trade Towers collapsed...the resiliency of our capital markets and our communication networks was tested. The Bank of Canada, in coordination with the Federal Reserve, moved quickly to ensure that all market participants had sufficient access to Canadian and US dollar liquidity. As the dust was settling in downtown Manhattan, our central Bank added almost a billion dollars of liquidity to ensure that large institutions had the funds they needed to meet their settlement obligations. This

additional liquidity came to the aid of US-based financial institutions as they settled their global transactions.

Now, not all risks are external. Some grow from the inside out. Names like Enron, Worldcom and Bre-X have a permanent home in the 'Hall of Shame'. They are testament not only to the level of greed and corruption to which powerful people with no moral compass can descend...they are also reminders that our job as regulators...to ensure safe and secure markets is vital and never ending.

This is a central focus of the IDA. We oversee the business conduct and financial activity of 200 securities dealers and 24,000 licensed brokers representing over 97% of the securities industry in Canada. As the largest national self-regulatory organization, with deep regional roots, our mandate is to protect investors and promote the growth and competitiveness of our capital markets.

Improving corporate governance has long been a serious focus in this country. The release of the "Dey Report" in 1994 brought a renewed emphasis on the need for continuing improvement of our corporate governance practice. Almost eight years ago, the TSE adopted corporate governance guidelines that go beyond what is required in the US even today. Measures to separate the role of the CEO and Chairman of the Board and to ensure the independent quality of Board's of Directors are yet to be adopted in the US.

Securities Commissions, SROs and federal and provincial governments are now examining the merits of the US Sarbanes-Oxley legislation. While the IDA and others agree with many of the initiatives contained in the act, we also believe that to adopt the entire US model as is would be to ignore the unique requirements of the Canadian capital markets. And it could impose an excessive burden on small and medium-sized businesses.

It's a fact that 177 Canadian companies listed in both Canada and the US must comply with Sarbanes-Oxley. For these companies, rule harmonization between our two countries is crucial, as we do not want to create regulatory conflict and duplication.

It is also a fact, that while these inter-listed companies account for 72% of the value of the TSX, they represent only 5% of the companies listed in Canada. Compared to the US we have a much higher proportion of small public companies, as over 42% of our listed companies have a market cap of less than \$50 million.

We need to proceed carefully to create rules that do not place undue regulatory burdens on our smaller companies. While I am certainly not arguing for a made-in-Canada solution for its own sake, I am arguing strongly that we must strive for a balance that delivers effective governance while acknowledging the unique needs of our small and medium sized companies.

Canadian and US regulators have also made independent efforts to improve the standards of conduct for research analysts. The recent fines and penalties announced in the United States last week point out how seriously these conflicts are taken by the US regulators. At the present time, many of the Canadian rules that analysts must follow, contained in our Policy 11, are significantly tougher and were drafted before those in the US. However, we fully expect that once the rule-making process is complete, standards in both countries will be similar, as the need for free-flowing research between our two markets is essential.

The audit process has also received its share of scrutiny. In response to a litany of high-profile accounting scandals, the chartered accounting profession, along with federal and provincial regulators, created the Canadian Public Accountability Board. Its job is to review the practices of firms that audit publicly listed companies. In keeping with best practices, this Board will have seven of the eleven Board members from outside the accounting industry and the Chairman is a former head of the Bank of Canada, Gordon Theissen. By the way, the Chairman of the US Public Company Accounting Oversight

Board, William McDonough, is also a former central banker. The fact that both Chairmen know each other well will ensure that cross-border cooperation is maximized.

Capital not only flows into jurisdictions that are safe and secure, it flows into areas where the rules are straightforward and the cost of complying with the rules reasonable. That's why the Canadian Securities Administrators entered into a joint arrangement with the Securities and Exchange Commission for the mutual recognition of securities documents relating to public financings and takeover bids. Together, regulators in both countries created the Multijurisdictional Disclosure System or MJDS.

This system of mutual recognition is the only bilateral arrangement of its kind and it is a major reason for Canadian companies' ability to execute debt and equity financings in the US capital markets. In fact, when there was talk of the SEC withdrawing the MJDS program several years ago, the IDA together with Canadian securities regulators worked successfully to address their concerns and the program was saved.

We have also made great strides in improving access for American investors in Canadian securities that do not trade on US exchanges. Last year, US regulators approved an exception for the secondary trading of all TSX listed securities by US investors. Eliminating the requirement for state-by-state approval will promote liquidity in the secondary trading of Canadian securities. This agreement recognizes the level of confidence that the US regulators have in the Canadian regulatory system and the fact that our disclosure rules differ little from those in the US.

The IDA has also been active in promoting Canadian investor access to American markets. Several years ago our Federal Government introduced new tax measures to stop the practice of tax evasion through the use of offshore funds. While the measures were well-intended, they had the unintentional effect of capturing legitimate offshore investments such as Index Funds and Exchange Traded Funds. The IDA argued successfully that the legislation needed to be re-written to allow Canadians access to these legitimate investments.

Mutual access is the bottom line. The measures that have been taken to enhance the confidence and integrity of capital markets, both unilaterally and in conjunction with US authorities, are evidence that Canadian companies and investors can depend on continued access to U.S. markets.

This access to US capital by Canadian companies is important as it translates into attractive portfolio and direct investment opportunities for Canadian investors, both in the Canadian energy and resource sector as well as the burgeoning biotech and hi-tech sectors.

Many of our biggest, brightest and most progressive companies require open access to US investment capital to grow. Companies such as Encana, Loblaws, CN and our major Canadian banks have plans to expand and that will require significant amounts of new capital. At the same time, virtually every company in the energy and resource sector in this country has required access to US capital markets. A great many private placement and special warrant financings have had significant US institutional participation under various exemptions and are vital to the success of our smaller companies. Access also works both ways, as American investment banks have been very successful in taking Canadian companies like Sierra Wireless and Ritchie Brothers Auctioneers public in the US, often bypassing the Canadian capital markets.

Knowledge-based companies such as RIM and Angiopharma are particularly dependent on public and private sources of US capital. We are witnessing significant renewed interest by the venture capital funds such as Novartis, Intel Capital and by private endowment funds in Canadian oil and gas investments. In fact, over the last three years, venture capital from US sources has been at three times the levels seen in the late 90's. We expect to see continued interest in the Canadian small cap sector, reflecting recent initiatives by the federal government to improve the tax treatment for venture capital.

North/south direct investments by major North American companies have grown steadily and show no signs of slowing. Over the past five years the US has doubled its direct

investment in hard assets in Canada to just under a quarter of a trillion dollars, while Canadian investment in the US has also doubled to just over \$200 billion dollars.

However, in assessing prospects for market access we must be realistic. Canada-U.S. relations have undergone a profound change since September 11 and the war in Iraq. We have experienced bouts of anti-Americanism in the past, but this time it may be different. I am concerned that the "special relationship" between Canada and the United States that has yielded many advantages in cross-border trade may no longer work its special magic. Canada, in economic terms was never the equal of the United States, but our special relationship enabled us to punch above our weight, so to speak.

We will remain an ally and trading partner of the United States, and we will always have strong cultural and social ties...something that is inevitable for two countries with such a long border. However, it may be difficult to achieve the sort of trade advantages obtained in the Free Trade Agreement of the late 1980s.

I am afraid there are no quick remedies. It is not simply a question of changing leaders or changing governments. Our long history and close working relationship with the US is not something we can take for granted. Recent events clearly suggest that we must redouble our efforts on both sides of the border to tend to a relationship that has provided long-standing benefits to both countries. We must continue to work together on a mutual agenda to strengthen market integrity and work to improve access to capital markets. In the current environment, we will probably make the greatest headway by tackling a modest agenda aimed at incremental improvement on a broad policy front. This approach will achieve concrete results and restore a new sense of normalcy.

While our continuing efforts to harmonize the operation of our capital markets are important to growth and expansion, it is equally important that Canada is an attractive place to invest. Last year, the Canadian economy led the G-7 in economic growth. I say 'again' because this is the fourth year in a row that Canada has maintained that position.

International organizations such as the IMF are forecasting that Canada will again lead G-7 in 2003.

In 1997, due to fiscal restraint and tighter monetary policy, Canada posted its first budgetary surplus. Since then the surpluses have continued to grow. Even during the economic slowdown in 2001, we managed to post a surplus...and we are the only nation expected by the OECD to post surpluses in 2003 and 2004. Not surprisingly, Canada's credit rating – Triple A – is the highest in the world for our long-term debt. It's an impressive effort that demonstrates that when we focus our efforts we can bring about substantial change.

The continued growth of Canada and our capital markets will be a direct result of how we maintain and nurture our unique and historic relationship with the United States. I personally believe that confidence is the critical ingredient that makes our world work. Peace, prosperity and a secure future must be built on trust and confidence. In politics we describe this confidence as the "public trust". In the financial world we call it "investor confidence". It's something hard-won and easily lost.

Our capital markets are not just a question of finance. They are not just about numbers on a balance sheet. They are essential to our future...your family's future, and the future of this country. The health of our capital markets is directly linked to the prosperity and retirement security of millions of Canadians. At the present time, approximately 46 percent of Canadians own shares' in companies, either directly or through mutual funds. When you include indirect holdings through employer-sponsored and public sector pension funds, virtually every adult Canadian participates in the markets.

As I've said, the capital markets are critically important for the growth of our Canadian companies as they look increasingly to the markets to meet their financing needs. Now, I've heard it argued that our domestic capital markets don't matter much. The argument goes...that because the markets have become global we're simply too small to matter. I don't agree.

It's true, global capital markets are very important, but they can't meet the needs of all companies at all stages. For a great many Canadian companies, access to global capital markets can be difficult. It can also be unpredictable, especially when markets lack direction and international investors are reluctant to put money into offshore ventures. Our firms need robust, innovative capital markets here in Canada to provide the necessary financing to grow their businesses.

We can be justifiably proud that Canada has been a leader in many areas of corporate governance, securities innovation and regulatory reform. However, we must also remember that, in spite of our good fortune and a lifestyle that is the envy of many in the world, now is not the time to sit down and celebrate.

The reality is that we all have a role to play. We must all encourage cooperation and good policy creation at both the federal and provincial levels. We must continue to strive for unfettered cross-border access to capital to support economic growth in both countries. We must continue to urge the federal government to lower taxes, reduce cross-border roadblocks and work with all levels of government to improve the safety and effectiveness of our capital markets.

To secure the future of our capital markets, we require a highly harmonized yet tailor-made Canadian approach. It is an approach that recognizes the need for a balance between security and openness...between uniquely Canadian needs and international cooperation.

We must also strive to work constructively with our American counterparts in building a true North American capital market that will benefit both countries. This demands that we look at these issues not only from the perspective of Canada, but also with a better appreciation of the needs and aspirations of our American neighbors. If we ignore those needs we will certainly court disaster.

It's a fact...capital will flow and investors will go where they are treated best. Let's make sure we're putting out a Canadian welcome mat for our most important trade partner and the rest of the world that says -- "Welcome. Canada is open for business."

Thank you.

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**Timing: 25:00 minutes**