

Throughout consultation paper 91-402, the Canadian Securities Administrators Derivatives Committee suggests that Canadian regulators adopt foreign standards. Almost as if everyone has forgotten the failure to police the standards that contributed to the global sub-prime mortgage mess. That financial disaster clearly demonstrates why it is not in the best interest of Canada to set up a system that trusts foreign investment classification labels or foreign standards. There is information in consultation paper 91-402 that indicates that various jurisdictions are not seeking internationally consistent rules. Footnote number 36 on page 18 shows that the C.S.A. Derivatives Committee is aware that Hong Kong, Spain, Mexico, India and possibly South Korea are planning to develop local trade repositories. News reports indicate that the United States of America is proceeding on its' own OTC derivatives path. The S.E.C. recently released 'investment advisers exemptions' which highlight an aspect of foreign legislation modifications: Canadians cannot control future modifications to those foreign rules.

The large economic jurisdictions seem to be proceeding as if their derivatives rules will become the international standard. Until the major economies actually adopt internationally consistent rules, Canadian interests will best be served by setting up our own regulations with active policing of the rules. The only certain way that the CSA Derivatives Committee can make sure that Canadian participants don't break any foreign derivatives repository rules is by closure of the OTC derivatives market in Canada. Have all domestic jurisdictions reclassify derivatives as a form of gambling. Government revenue would probably increase as a result of the reclassification.

Since the majority of OTC derivatives are speculative, it's reasonable to consider the reclassification as a quick and thorough solution to the OTC derivatives mess.

Standardized OTC derivatives bets could be made and registered simultaneously through the existing gaming infrastructure. Credit default swaps that seek to profit from government debt default could be outlawed (C.D.S.s of this type introduce incentives to unscrupulous people to push governments into default, which is very destabilizing). As with other gambling activities, a requirement for cash up front (full monetization) would solve the problem of insufficient collateralization. Another benefit of reclassifying it as gambling would be preventing pension fund administrators from speculating with other peoples' retirement money. The pension money currently flowing into derivatives speculation would shift into other channels; providing support to stock prices or startup companies.

Any reduction in the magnitude of the global derivatives market would increase stability. Let's face it, the derivatives market is just too big. If the derivatives market stays as big as it is now, the next economic shock to impact the world will be augmented by the massive speculation into a total disaster. Having all the derivatives bets registered in trade repositories will not help. Transparency will probably speed up the process of bankruptcy. Because the information is in a repository, one way or another, people will find out very quickly who is a credit risk. With the worlds' financial systems so strongly interconnected the next derivatives augmented economic shock will affect the solvency of every bank. Just like the last shock

did. The proposed OTC trade repositories will not reduce the size of the global derivatives market. With hundreds of trillions of U.S. dollars of outstanding notional value, it is the huge size of the speculative derivatives market that is destabilizing.

It is past time to shut it down.

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