MARSH

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Subject: Notice and Request for Comment regarding compensation of consumers of financial products and services

Me Beaudoin,

The Autorité des marchés financiers' (the "AMF") was mandated by the Quebec government to hold a public consultation on the compensation of victims of financial crime. In response to the notice of consultation published on December 9th 2011 by the AMF, we offer our views in support of the AMF's efforts to offer a compensation fund that is specifically designed to afford protection to Quebec consumers for certain financial products and services purchased from registered market intermediaries.

Any Quebec approach to the compensation of consumers of financial products and services, should contemplate how other jurisdictions and countries around the world have approached the formation and structure of their compensation funds.

<u>Europe</u>

Europe is currently undergoing a review of proposals that were presented by the EU Commission. There are currently 27 compensation funds/plans in Europe. The economic crisis of 2008 and the preceding impact coupled with bank failures like Lehmans and the Madoff scandal has encouraged the EU to review its current legislation and structures. The focus is providing stability and confidence to financial markets and encourage retail investors to continue investing while benefitting from significant protection. Therefore, compensation limits in Europe have been under review and may increase from EUR 20,000 per investor to at least EUR 50,000 and possibly as much as EUR 100,000.

<u>US</u>

The Securities Investor Protection Corporation ("SIPC") fund in the US is currently under pressure by the Stanford ($ 7 billion ponzi scheme) case which has in fact resulted in the SEC suing SIPC to compensate Stanford customers. Similarly, the MF Global bankruptcy has caused additional pressure on the system. SIPC currently has $ 1 billion in their fund.

Rest of the World

Currently discussions with countries such as India, Hong Kong, Turkey, China, Taiwan, Japan and South Africa with respect to compensation plans are on-going. Compensation plans are now being considered in less sophisticated markets such as Indonesia. In fact, many stock exchanges around the globe are undergoing studies on this subject as well.

Canada

At the present moment, all Canadian investors dealing through a securities broker/dealer benefit from the Canadian Investor Protection Fund ("CIPF") as it affords protection for eligible losses in the general accounts and for retirement accounts up to a maximum of $1 million per category of accounts in the event of the insolvency of a CIPF member. In contrast, the Mutual Fund Dealers Association (MFDA) affords the same level of protection as the CIPF in the event of the insolvency of an MFDA member except for their clients located in Quebec because the MFDA is not recognized as a self-regulatory organization in the Province of Quebec. An alternative approach to creating a Quebec solution that may merit some further discussion is whether it is possible to recognize the MFDA as a self-regulatory organization and extend the MFDA compensation fund to include Quebec investors.

Quebec

With regard to a compensation fund for Quebec consumers of financial products and services, Marsh has the expertise, insights and practical experience required to create an innovative insurance solution for a Quebec compensation fund. We have arranged excess of fund insurance solutions for governments, exchanges, brokers and high-net worth individuals around the world.

Marsh has been providing excess of fund insurance solutions to compensation funds and fund members across the USA, Canada, Japan and Europe for more than 20 years. Thus, Marsh provides a truly global and broad perspective on the various insurance solutions currently in place for compensation funds in Canada and around the world, along with benchmarking insights, and top level access to the insurance markets who underwrite excess of fund insurance coverage.

A few points meriting discussion include:

- The private insurance market may further the Minister of Finances objectives of financial stability and security through excess of fund insurance coverage.

- Contingent excess capital in the form of an insurance policy operating over and above an investor protection fund affords additional liquidity and protection from catastrophic losses in a cost effective manner.

- Generally, excess of fund insurance policies are more cost effective than the annual cost of maintaining traditional Letters of Credit with most commercial banks, with the added benefit that the insurance proceeds do not require repayment;

- The premium rating for this type of insurance must take into account the structure of the fund, the loss trigger, the sum to be insured, the attachment point, the local regulations and claims history, etc.

- In Marsh's experience, a two facet approach of prevention and protection is required i.e. working closely with the regulators and the insurance market to establish and highlight best practices.

- An insurance component to enhance investor protection funds is a well developed product which may expedite the claims treatment during or after the failure of a member and thus instilling investor confidence.

The above are only a few points for which we believe a collaborative exchange is worthwhile. Marsh is soliciting a meeting as we believe it would offer an occasion to discuss how we can add value to this important initiative through our practical experience in working with investor protection funds around the world and the innovative products offered in the private insurance market.

Trusting the above is found in order, we welcome the opportunity to meet with you. As such, we remain at your disposal to discuss further and look forward to receiving your feedback. We will contact you shortly for a meeting.

Sincerely,

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