2005-2006 ANNUAL REPORT

OF THE
CONSEIL CONSULTATIF DE RÉGIE ADMINISTRATIVE
(ADVISORY BOARD)

Québec City, July 26, 2006

Mr. Michel Audet
Minister of Finance
Parliament Building
Québec City

Dear Sir:

I am pleased to provide you with the 2005-2006 Annual Report of the C*onseil consultatif de régie administrative* (Advisory Board) of the *Autorité des marchés financiers* (AMF).

On behalf of the members of the Board, I wish to convey our gratitude for the confidence you have expressed in us by entrusting the affairs of the Board to our watch. Rest assured that we are making every effort to ensure that the Board serves as a primary governance body in co-operation with AMF executives.

Yours truly,

Bernard Motulsky
Chair
Conseil consultatif de régie administrative of the *Autorité des marchés financiers*

ADVISORY BOARD ACTIVITY REPORT

ADVISORY BOARD ORIGINS

The *Conseil consultatif de régie administrative* (Advisory Board) was established pursuant to section 48 of the *Act respecting the Autorité des marchés financiers* (R.S.Q., c. A-33.2) (the "Act").

The decision to establish such a board was further to public consultations that took place even before the adoption of the Act establishing the *Autorité des marchés financiers* (AMF). The legislator elected to provide the future regulatory and oversight body for Québec's financial sector with a council for the purpose of consultation and administrative advisement in support of the AMF's mission and various mandates.

Almost all bodies that supervise and regulate capital markets in Canada and around the world can draw on a board for corporate governance advice. The approach adopted in Québec distinguishes itself by the fact that the attributes and powers of this Board are defined by law and exercised at two decision-making levels, namely, the AMF itself and its President and CEO, and the Minister who oversees the AMF, namely, the Québec Minister of Finance.

Even though it is an advisory body, the Board's actions are wide-ranging in scope. The Board performs the following functions in respect of the AMF:

1. to advise the AMF on the compatibility of its actions with its mission;

2. to advise the AMF on its corporate governance, in particular as regards its budget estimates, staffing plan and activity plan;

3. to make recommendations to the AMF President and CEO concerning the appointment of AMF senior executives and the renewal of their terms;

4. to report to the Minister on any matter submitted to it by the Minister and make recommendations concerning the administration of the AMF and the efficient use of its resources.

The Board may also recommend that its advice to the AMF be available to the public.

Pursuant to the Act, the Board is required to submit a report on its activities no later than July 31 each year. It must be appended to the activity report of the AMF. This is a significant formality, as it compels the Board to provide accountability to the members of the National Assembly, thereby ensuring greater transparency. The current report covers the activities of the Board for AMF's fiscal year beginning on April 1, 2005 and ending on March 31, 2006.

BOARD MEMBERS

The Board is composed of seven members, including a chair, appointed by the Minister, pursuant to section 49 of the Act. They are chosen for their knowledge of the financial industry as well as for their expertise in the area of administrative management.

As of March 31, 2006, the Board was composed of Bernard Motulsky and Michel Lespérance, Chair and Secretary respectively, as well as Michel Lamontagne, Jean Phaneuf and Jacques Saint-Pierre.

Bernard Motulsky is Director General, Communications and Recruiting at the University of Montréal.

Michel Lespérance, who is retired, held the position of Secretary General of the University of Montréal until September 2005.

Michel Lamontagne is a lawyer specializing in private financing and coaching related to angel investor groups and corporate directors through the consulting firm *MLL Société conseil*.

Jean Phaneuf is President of *Analys psychology organisationnelle*, a consulting firm specializing in potential evaluation and organizational efficiency.

Jacques Saint-Pierre serves as Full Professor in the Finance and Insurance Department of Laval University and is Founding Director of LABVAL *(Laboratoire de recherche en évaluation des entreprises)* at Laval University.

To satisfy the requirements of the Act, which calls for a Board made up of seven members, two other appointments will eventually have to be made by the Finance Minister. The members of the Board are appointed for a term of no more than three years and it may be renewed only once.

From left to right: Jacques St-Pierre, Michel Lamontagne, Bernard Motulsky, Jean Phaneuf, Michel Lespérance.

BOARD ACTIVITIES IN 2005-2006

STATUTORY MEETINGS

The Act stipulates that the Board is to hold meetings as often as necessary to fulfill its obligations, but it must meet at least four times a year. Two guests attend the meetings on a permanent basis: Maître Anne-Marie Beaudoin, AMF Director, Secretariat, and Jean St-Gelais, AMF President and CEO.

In fiscal 2004-2005, the Board held six meetings. In the current fiscal year, it held the same number of regular meetings as follows:

Seventh meeting: May 11, 2005 in Montréal;
Eighth meeting: June 16, 2005 in Québec City;
Ninth meeting: December 8, 2005 in Montréal;
Tenth meeting: February 15, 2006 in Québec City;
Eleventh meeting: March 3, 2006 in Montréal;
Twelfth meeting: March 29, 2006 in Québec City.

BOARD'S OPERATIONAL TOOLS

Three basic tools govern the Board's operations: by-laws of the Board, a liaison and support protocol between the AMF and the Board as well as a code of ethics and professional conduct that the Board members are required to sign in witness of their adherence thereto.

ADVISING THE AMF AND THE FINANCE MINISTER

Neither the Minister nor the AMF called on the Board for advice on issues related to the financial sector.

BOARD'S CONTRIBUTION TO AMF ADMINISTRATION

As part of its meetings, the Board regularly monitors the AMF's activities. It is briefed on various matters related to its mission. In many instances, the Board conveyed comments or submitted recommendations, most of which were adopted by the AMF.

The main items covered by the Board at its statutory meetings in 2005-2006 were the AMF's activity plan, on which follow-up is provided twice a year, numerous internal management files (including human resources and budgeting) and AMF activities pertaining to its broad mandates: legislation and regulatory affairs, oversight, consumer assistance and compensation.

FOLLOW-UP ON BOARD EXPECTATIONS AND RECOMMENDATIONS OF LAST YEAR

In its 2004-2005 activity report, the Board submitted recommendations at the end of the initial fiscal year. The follow-up provided on its expectations and recommendations are discussed below.

INTERNAL AUDITING AT THE AMF

During the initial fiscal year, the Board had recommended that the AMF hire an internal auditor and implement an internal audit charter as outlined in international standards. The AMF followed-up on this recommendation and hired an internal auditor effective April 2005.

Since joining the AMF, the internal auditor has developed procedures specific to this governance function and kept the Board abreast of his ongoing mandates. Moreover, the internal audit charter, which defines the powers and responsibilities of AMF management, the Board and the internal auditor, was finalized.

BALANCED AMF BUDGET

The Board had expressed the hope for a balanced AMF budget. According to the 2006-2009 financial forecasts filed with the Board, this objective was expected to be achieved in 2007-2008.

The AMF is on course and this objective is realistic given that its initial budget had forecast a deficit of $8 million, and a surplus is expected in fiscal 2005-2006.

REPRESENTING THE AMF AT NATIONAL AND INTERNATIONAL EVENTS

At the end of the previous fiscal year, the Board had expressed an interest in reviewing the AMF's policy regarding representations at national and international events dedicated to market regulation.

A review has been undertaken and was the subject of an initial guidance document on AMF's external relations. This draft document will enable the AMF to adopt a more complete external relations policy regarding its areas of expertise so as to ensure that Québec regulations and AMF actions are constantly in tune with international standards.