

ANNUAL REPORT



2006 – 2007

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The *Autorité des marchés financiers* would like to thank the employees appearing in the photographs:

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Québec City
July 27, 2007

Mr. Michel Bissonnet
President of the National Assembly
Parliament Building
Québec City

Dear Sir:

I am pleased to provide you with the Annual Report of the *Autorité des marchés financiers* for the period from April 1, 2006 to March 31, 2007.

Yours truly,



Monique Jérôme-Forget
Minister of Finance

Québec City
July 27, 2007

Ms. Monique Jérôme-Forget
Minister of Finance
Parliament Building
Québec City

Dear Madam:

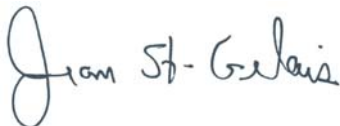
I am honoured to submit the Annual Report of the *Autorité des marchés financiers* for the period from April 1, 2006 to March 31, 2007.

In accordance with section 42 of the agency's constituting Act, this report presents the agency's financial statements and discusses its principal activities during the most recently completed fiscal year. The report also outlines the agency's activities in connection with the administration of the following: the *Deposit Insurance Act*, the *Securities Act* and the *Act respecting the distribution of financial products and services*.

Moreover, pursuant to section 58 of the agency's constituting Act, the report includes the activity report of the *Conseil consultatif de régie administrative*.

However, the reports referred to in the *Act respecting insurance*, the *Act respecting financial services cooperatives*, the *Act respecting trust companies and savings companies* as well as the *Automobile Insurance Act* are set out in separate documents.

Yours truly,



Jean St-Gelais
President and Chief Executive Officer

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MESSAGE

from the President and Chief Executive Officer



In 2006, the *Autorité des marchés financiers* (the “AMF” or the “Authority”) pursued its activities related to its mission to protect the public, namely, supervising the financial markets and providing assistance to consumers of financial products and services.

THIS YEAR, WE FOCUSED OUR EFFORTS ON REGULATORY HARMONIZATION AND MARKET MONITORING.

We also intensified our efforts to foster public awareness about savings and investments so as to improve knowledge about the financial sector. In light of the size and scope of the challenges and matters we were called on to handle, we added new members to our staff, primarily in the areas of monitoring and investigations. In so doing, the AMF positioned itself to ensure more effective financial market supervision.

When the AMF was established in February 2004, we sought to establish a regulatory agency able to provide an integrated approach to financial sector regulation in Québec, within a context of market globalization and financial industry decompartmentalization. Today, our array of activities confirms our solid footing among financial sector stakeholders and consumers. I might point out in particular our numerous public consultations, the success of our *Rendez-vous with the AMF*, the use of our Information Centre, the wide dissemination of our informational materials on investments, and our contribution to the work of the National Assembly’s Committee on Public Finance in relation to the protection of investors.

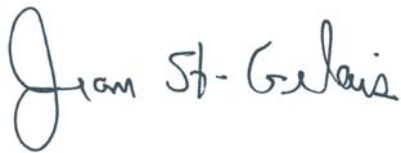
The AMF also continued to develop its relationships with Canada’s other regulators through various projects involving matters such as consumer protection and the harmonization of Canada-wide securities regulation. In particular, the AMF was involved in furthering the passport system, which is designed to provide a single window of access to the Canadian markets for issuers and registrants whose securities are traded in various Canadian jurisdictions or who have clients in more than one jurisdiction.

Our primary challenge, therefore, consists in striking a fair balance between the protection of Québec investors and the growth and development of markets through fair and thorough oversight. Such oversight should be as much a priority as other infrastructures required for the efficient functioning of our society and its economy. This is what we strive to ensure on a daily basis.

I would like to thank all staff members for their dedication and professionalism in making the *Autorité des marchés financiers* a reliable organization recognized for its commitment toward serving the public and the financial sector.

I would also like to thank all of the members of the *Conseil consultatif de régie administrative* (the “Advisory Board”), particularly its chair, Mr. Motulsky, who actively support the AMF in the performance of its mission.

I hope you enjoy reading this 2006-2007 edition of our Annual Report.

A handwritten signature in black ink, reading "Jean St-Gelais". The signature is written in a cursive, flowing style.

Jean St-Gelais
President and Chief Executive Officer

PRESENTATION

of the *Autorité des marchés financiers*



The *Autorité des marchés financiers* (the “AMF” or the “Authority”), which was established pursuant to the *Act respecting the Autorité des marchés financiers* (R.S.Q. c. A-33.2) on February 1, 2004, is the body mandated to regulate and oversee Québec’s financial sector and protect consumers of financial products and services.

The AMF is a legal person and a mandatary of the State, and it is headed by a President and Chief Executive Officer appointed by the Government.

The duties and fees paid by the individuals and enterprises governed by the laws administered by the AMF ensure its financial autonomy.

Mission

The mission of the AMF is to administer the legislation in respect of the financial sector, including insurance, securities, deposit institutions—other than banks—and the distribution of financial products and services.

In particular, the AMF must:

- provide assistance to consumers of financial products and services;
- ensure that financial institutions and other regulated entities of the financial sector comply with the solvency standards applicable to them as well as with the obligations imposed on them by law;
- supervise the activities connected with the distribution of financial products and services;
- supervise stock market and clearing house activities and monitor the securities market;
- see to the implementation of protection and compensation programs for consumers of financial products and services and administer the compensation funds set up by law.

Vision

To be recognized as a team that is dedicated to serving Quebecers and the financial markets.

Organizational Values

- Active listening to stakeholders
- Mobilization of individuals
- Delivery of quality services
- Enforcement of regulations in a thorough and equitable manner

Governance Principles

- Openness
- Focus
- Consistency
- Accountability
- Team spirit

Principal Acts Administered by the *Autorité des marchés financiers*

In addition to exercising the functions and powers conferred on it by its constituting Act, the AMF administers the following:

- *Automobile Insurance Act* (Title VII) (R.S.Q. c. A-25)
- *Deposit Insurance Act* (R.S.Q. c. A-26)
- *An Act respecting insurance* (R.S.Q. c. A-32)
- *An Act respecting financial services cooperatives* (R.S.Q. c. C-67.3)
- *An Act respecting the distribution of financial products and services* (R.S.Q. c. D-9.2)
- *An Act respecting the disclosure of the compensation received by the executive officers of certain legal persons* (R.S.Q. c. I-8.01)
- *An Act respecting the Mouvement Desjardins* (S.Q. 2000, c. 77)
- *An Act respecting trust companies and savings companies* (R.S.Q. c. S-29.01)
- *Securities Act* (R.S.Q. c. V-1.1)

These Acts, as well as the regulations and policy statements made thereunder, are available on the AMF website at www.lautorite.qc.ca.

Delegation of Functions and Powers to Self-Regulatory Organizations

The AMF may, on the conditions it determines, delegate to a recognized organization the exercise of all or part of the functions and powers conferred on it by law.

Self-Regulatory Organizations Recognized by the AMF

- The Investment Dealers Association of Canada (IDA) regulates the activities of securities dealers with an unrestricted practice and their representatives as regards capital adequacy requirements and conduct of business;
- The Montréal Exchange operates derivatives markets and is in charge of overseeing its markets;
- The Canadian Depository for Securities Limited (CDS) acts as a clearing house for cash instruments and central depository for securities in Canada;
- The *Chambre de la sécurité financière* (CSF) oversees the discipline, training and professional conduct of representatives in insurance of persons and group insurance, financial planners and representatives in group savings plan brokerage and scholarship plan brokerage;
- The *Chambre de l'assurance de dommages* (ChAD) is in charge of the professional development, supervision and discipline of damage insurance agents and brokers as well as claims adjusters;
- The Canadian Derivatives Clearing Corporation (CDCC) acts as a clearing house for derivatives;
- NASDAQ operates equities markets;
- Market Regulation Services Inc. (RS) acts as a provider of market regulation services.

Organizational Structure of the AMF

To fulfill his mandate, the President and Chief Executive Officer of the AMF relies on an Executive Vice-President, three Executive Directors and four Superintendents. The AMF's internal auditor and the *Conseil consultatif de régie administrative* (Advisory Board) assist the AMF in the application of its governance rules.

In all, the AMF has 562 regular and budgeted staff members in Québec City, where its head office is located, and in Montréal. A complete organizational chart can be found at the end of this report.

Office of the Executive Vice-President

The Office of the Executive Vice-President handles the development and implementation of advisory and support services within the AMF. It manages the projects pertaining to registration reform and the proposed derivatives legislation. In addition, it monitors the self-regulatory organizations (SROs) to which the AMF has delegated certain powers. Moreover, it participates and supports the agency's representatives in national and international events and in relations with its various clienteles.

The Office of the Executive Vice-President includes two branches, three sections and one department: the *Direction générale de l'administration* (Administration) and the *Direction générale aux mandats spéciaux* (Special Projects), the *Direction de la supervision des organismes d'autoréglementation* (SRO Oversight), the *Direction des communications* (Communications), the *Direction des relations extérieures* (External Affairs) and the *Service de la traduction* (Translation).

Administration

It is through Administration that the Office of the Executive Vice-President fulfills its mandate to advise and support the AMF team. Administration is made up of the *Direction des ressources humaines* (Human Resources), the *Direction des ressources matérielles* (Material Resources), the *Direction des technologies de l'information* (Information Technologies) and the *Direction des finances* (Finance).

Special Projects

Special Projects co-ordinates major undertakings such as registration reform and the proposed derivatives legislation.

Legal Affairs and Secretariat

The primary mandate of the *Direction générale des affaires juridiques et secrétariat* (Legal Affairs and Secretariat) is to detect, investigate and ensure the application of penalties for violations of the laws for which the AMF is responsible. It conducts all of the AMF's legal proceedings. It co-ordinates the development and adoption of the legal and regulatory framework and ensures its validity, and it interprets financial sector legislation. It also ensures that decisions issued by the President and CEO and the Superintendents are legally valid.

Legal Affairs and Secretariat develops and manages the AMF's governance framework. In that regard, it sees to the proper functioning of the AMF's decision-making bodies, oversees the application of the code of ethics and professional conduct and manages the rules pertaining to access to information. It also acts as the secretariat for the Advisory Board.

Legal Affairs and Secretariat is made up of the *Direction du Secrétariat* (Secretariat), the *Direction des affaires juridiques* (Legal Affairs), the *Direction du contentieux* (Litigation) and the *Direction de l'inspection et des enquêtes* (Inspection and Investigations).

Client Services and Compensation

The *Direction de l'assistance à la clientèle et de l'indemnisation* (Client Services and Compensation) provides information services to all of the AMF's clienteles. It also provides assistance and dispute settlement and compensation services to consumers of financial products and services. Moreover, it administers a financial services compensation fund, a deposit insurance fund and the Fund for Investor Education and the Promotion of Good Governance.

Client Services and Compensation is made up of the *Direction du Centre de renseignements* (Information Centre), the *Direction de l'assistance aux consommateurs* (Consumer Assistance) and the *Direction de l'indemnisation* (Compensation).

Securities Markets

The *Direction des marchés de valeurs* (Securities Markets) oversees, among other things, the application of rules relating to public offerings, take-over and issuer bids, continuous disclosure and corporate governance. To do so, it analyzes disclosure documents related to securities offerings and take-over and issuer bids, and it ensures that reporting issuers provide security holders and the market with financial statements and other required continuous disclosure documents. Moreover, it drafts and implements strategic orientations and regulations involving securities matters. Finally, it participates actively in the various regulatory and harmonization projects and initiatives of the Canadian Securities Administrators, which has been chaired by the AMF President and Chief Executive Officer since April of 2005.

Securities Markets is made up of the *Direction des marchés des capitaux* (Financial Markets), the *Direction de la gouvernance corporative* (Corporate Governance), the *Service de la réglementation* (Regulations) and the *Service de la conformité* (Compliance).

Solvency

The *Direction de l'encadrement de la solvabilité* (Solvency) oversees and monitors deposit institutions—other than banks—and insurance companies operating in Québec for the purpose of protecting the interests of consumers of financial products and services. It ensures that these institutions and companies hold all the authorizations needed to carry on their activities in Québec, and that they satisfy statutory and regulatory requirements. Solvency also assesses their financial condition and the quality of their management in order to avoid potential profitability and solvency problems. Finally, it drafts and implements guidelines and standards related to its area of operations.

Solvency is made up of the *Direction du contrôle du droit d'exercice* (Right to Practice), the *Direction de la conformité* (Compliance) and the *Direction de l'actuariat et du développement des normes* (Actuarial Services and Standards Development).

Distribution

The *Direction de l'encadrement de la distribution* (Distribution) applies the rules regarding eligibility and the right to practice that apply to representatives, firms, advisers and brokers in all financial market sectors. It provides front-line services for registration, maintenance, certification and renewal of the permits and certificates issued under the *Securities Act* and the *Act respecting the distribution of financial products and services*. Moreover, it drafts and implements the orientations and regulations related to its functions.

Distribution is made up of the *Direction des pratiques de distribution* (Distribution Practices) and the *Direction générale adjointe des services aux entreprises* (Industry Services). Industry Services is composed of the *Direction de la formation et de la qualification* (Training and Qualification) as well as the *Direction de la certification et de l'inscription* (Certification and Registration).

PROFILE

of Clienteles Overseen by the AMF



The AMF oversees Québec's financial sector, including the areas of insurance, securities, deposit institutions—other than federally chartered banks—and the distribution of financial products and services.

TABLE 1 | PROFILE OF THE CLIENTELES
OVERSEEN BY THE AMF

Clienteles¹

Number

	AS AT MARCH 31, 2004	AS AT MARCH 31, 2005	AS AT MARCH 31, 2006	AS AT MARCH 31, 2007
Deposit institutions				
Financial services cooperatives	579	551	531	515
Trust companies and savings companies	45	43	46	45
Insurance of persons (individual and group)				
Insurers	130	128	126	125
Firms, independent partnerships and independent representatives	8,892	8,760	8,685	8,505
Representatives	17,773	17,832 ^R	17,729	17,565
Damage insurance				
Insurers	180	183	185	188
Firms, independent partnerships and independent representatives	1,258	1,234	1,199	1,189
Representatives	9,312	10,090	10,474	10,598
Claims adjustment				
Firms, independent partnerships and independent representatives	238	222	221	222
Representatives	2,310	2,324	2,433	2,512
Financial planning				
Firms, independent partnerships and independent representatives	996	1,133	1,228	1,214
Representatives	3,792	4,244	4,752	4,708
Securities				
Reporting issuers	5,438 ²	5,312 ³	5,274 ³	5,416 ³
Unrestricted practice brokerage				
Dealers	126	131	132	130
Representatives	5,391	6,470	7,350	8,362
Restricted practice brokerage				
Dealers	14	17	14	13
Representatives	133	137	137	85
Group savings plan brokerage				
Firms	98	92	95	93
Representatives	21,123	22,023 ^R	22,295	22,716
Investment contract brokerage				
Firms	11	11	11	11
Representatives	61	51	45	42
Scholarship plan brokerage				
Firms	18	20	22	22
Representatives	975	947 ^R	817	810
Securities advisers				
Advisers	176	188	210	223
Representatives	697	750	888	1,052

1. Persons (legal or natural) governed by the *Act respecting the distribution of financial products and services* may operate in more than one sector. They may therefore have been counted more than once.

2. As at January 31, 2004

3. Active reporting issuers.

R: The transition from a semi-automatic count to a fully computerized count resulted in changes to some of the data.

HIGHLIGHTS

for 2006-2007



The highlights for the period from April 1, 2006 to March 31, 2007 are presented on the basis of the issues and orientations defined in the 2005-2008 Strategic Plan.

ISSUE 1

REGULATE THE FINANCIAL MARKETS

Regulatory oversight is crucial for the vitality of our financial markets, and maintaining consumer confidence in this area of activity requires effective action on the part of regulators. Moreover, sharp competition in the international marketplace requires that regulatory intervention not adversely affect the competitiveness of Québec's financial services industry.

The AMF has therefore adopted the following two strategic orientations:

- enhance monitoring in order to better protect the public;
- harmonize the regulatory system and reduce administrative formalities in order to foster the development of the financial sector.

Orientation 1

Enhance monitoring in order to better protect the public

AREAS OF INTERVENTION

- ▣ *Compliance*
- ▣ *Inspections*
- ▣ *Investigations*

Monitoring

The AMF has powers of inspection over the entities governed by the statutes it administers, such as securities firms, dealers and advisers, firms operating in the distribution of financial products and services, mutual funds as well as persons acting as custodians, trustees or managers of a mutual fund.

Moreover, in order to deter economic crimes, it has the power to investigate specific situations and to institute penal, administrative or civil proceedings. Inspection and Investigations was restructured with a view to processing cases more adequately and assisting the AMF in meeting its many challenges more effectively.

The AMF has approximately 85 employees assigned to Litigation and Inspection and Investigations. Inspection and Investigations has set up the *Service de préenquêtes* (Case Assessments), which conducts an initial sorting of potential investigations and flags those that are a priority, as well as the *Service de la surveillance des marchés* (Market Surveillance), whose mandate includes monitoring suspicious market activity.

A risk management approach and a matrix have been implemented in order to better understand the AMF's clientele and target areas of intervention more suitably.

TABLE 2 INSPECTION FILES*

		Number of files processed			
		FEBRUARY AND MARCH 2004	APRIL 2004 TO MARCH 2005	APRIL 2005 TO MARCH 2006	APRIL 2006 TO MARCH 2007
Inspections in accordance with the <i>Act respecting the distribution of financial products and services</i>	Opened	11	40	28	37
	Completed	12	49	18	24
	Pending	19	11	21	34
Inspections in accordance with the <i>Securities Act</i>	Opened	7	77	22	10
	Completed	2	99	31	22
	Pending	59	34	25	13

* The AMF is focusing on on-site inspections; off-site inspections have therefore been discontinued.

As regards case assessments and investigations, a greater number of files were completed during the year, and pending files relate to a larger extent to recent events, demonstrating the AMF's stronger capacity for intervention.

TABLE 3 INVESTIGATION FILES

		Number of files processed			
		FEBRUARY AND MARCH 2004	APRIL 2004 TO MARCH 2005	APRIL 2005 TO MARCH 2006	APRIL 2006 TO MARCH 2007
Case assessments ¹	Opened	30	149	165	298
	Completed	22	86	127	371
	Pending	71	134	172	77
Investigations ²	Opened	8	39	37	135
	Completed	5	25	21	127
	Pending	112	126	142	91
Market surveillance ³	Opened	24	106	63	69
	Completed	28	95	43	94
	Pending	25	36	56	31

1. Case assessment: examination of a complaint or an alleged violation of legislation administered by the AMF in order to determine whether an investigation is necessary.

2. Investigation: collection of relevant information and documents. Use of special powers to access reliable information in a timely manner, thereby enabling the AMF to take conservatory measures to ensure the protection of investors.

3. Market surveillance: search for tip-offs, particularly through the use of software designed to monitor the markets and detect unusual trading activity in real time. This enables investigators to immediately identify participants in a trade as well as the market's ability to absorb such trades, and to collect other information.

TABLE 4 RECOURSES

		Number of files processed			
		FEBRUARY AND MARCH 2004	APRIL 2004 TO MARCH 2005	APRIL 2005 TO MARCH 2006	APRIL 2006 TO MARCH 2007
Proceedings before the courts	Statements of offence issued	9	31	26	49
Quasi-judicial proceedings (BDRVM*)	Requests submitted	7	21	44	42
Administrative proceedings	Under the Act respecting insurance	—	1	—	2
	Under the Act respecting the distribution of financial products and services	—	4	16	19

* Bureau de décision et de révision en valeurs mobilières

Memorandum of Agreement Between the AMF and FINTRAC

On June 28, 2006, the AMF and the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) signed an agreement for the exchange of information. This new partnership will facilitate the exchange of information for purposes of enforcing compliance under the various statutes administered by the AMF as well as under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, which governs FINTRAC.

Influenza pandemic and financial institutions

On August 9, 2006, the AMF published an influenza pandemic guide for financial institutions. Given the importance of such preparedness for all of the clienteles overseen by the AMF, the AMF decided to expand the scope of its awareness campaign to all financial sector participants and, on April 2007, therefore posted two guides intended for all clienteles on its website.

Results of the continuous disclosure review program (CDR Program)

For the period from April 1, 2005 to March 31, 2006, the AMF published its report in September 2006, which highlighted that more than 1,000 recommendations had been issued to the 195 issuers selected.

The principal results show that:

- the majority of issuers must make additional efforts in preparing their Management's Discussion and Analysis so as to provide balanced and complete disclosure;
- the majority of restatements pertain to small-capitalization issuers;
- a large number of issuers do not satisfy the requirement to explain the qualitative criteria applied by the compensation committee in determining executive compensation as well as the specific relationship between such compensation and corporate performance.

The CDR Program was established for the purpose of ensuring the completeness, quality, timeliness and regulatory compliance of financial disclosure by issuers for whom Québec is the principal regulator. All CDR Program activity reports are available on the AMF website.

Orientation 2

Harmonize the regulatory system and reduce administrative formalities in order to foster the development of the financial sector

AREAS OF INTERVENTION

- ▣ *Regulations*
- ▣ *Administrative processes*

7 Regulatory activities

The AMF completed another busy year of regulatory activities designed to further harmonize the entire financial sector framework with the other jurisdictions.

Obviously, the work of the Canadian Securities Administrators (CSA) on the passport system (Draft Regulation 11-102) and registration reform (Draft Regulation 31-103) was given particular attention in light of the scope of these proposals.

Certain amendments to the *Securities Act* were adopted in December 2006. Some of these pertained to the passport system and improved oversight of mutual funds and their management. Through these amendments, the position of investment fund manager was formally defined as were an investment fund manager's obligation to act in compliance with the law and with diligence and honesty in fulfilling its functions, thereby serving the best interests of the fund and its beneficiaries. *Regulation 81-107 respecting Independent Review Committee for Investment Funds*, which was adopted during the preceding fiscal year, as well as the new registration requirements for investment fund managers, which were introduced under Draft Regulation 31-103, are major elements for enhancing regulation of the mutual fund sector.

The regulation activities conducted under the *Securities Act* must be reported on specifically, as set out under section 335.1 of the Act. The appendix beginning on page 43 of this report fulfills this requirement. It contains a detailed description of the six regulations that came into force this year as well as their impact on the market and on investors, and a discussion of the principal draft regulations aimed at bolstering the securities regulatory system.

Several draft regulations and guidelines were also introduced to improve regulation of the distribution of financial products and services, solvency requirements and oversight of securities exchanges, clearing houses and self-regulatory organizations.

The AMF issued several staff notices and guidance for a better understanding of the regulatory framework.

Market participants and investors can read about the AMF's regulatory activities in its weekly Bulletin. The Bulletin contains current information whose publication is required under laws and regulations. The latest notices and requests for comment and recent decisions can be found in the Bulletin.

Information regarding consultations in progress and the overall legislative and regulatory framework is always available on the AMF website.

7 Consultation on the regulation of derivatives markets in Québec

On May 1, 2006, the AMF published, for comment, a document on the regulation of derivatives markets in Québec. The document set out framework proposals that the AMF considers to be the most effective regulatory practices. As part of the process, comments were sought from stakeholders, and more than 10 comment letters were received. The AMF's response to these comments was published on February 2, 2007 on its website.

7 National and international co-operation

The AMF collaborated with the CSA and the Canadian Council of Insurance Regulators with a view to harmonizing its interventions as well as its investor education activities. The mandate of the AMF President and CEO as Chair of the CSA was renewed at the end of March 2007 for a period of two years.

The AMF also maintains extensive and proactive involvement on behalf of Québec with international agencies, such as the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), the International Association of Deposit Insurers (IADI), the Council of Securities Regulators of the Americas (COSRA), the *Institut francophone de la régulation financière* (IFREFI) and the North American Securities Administrators Association (NASAA).

The AMF President and CEO as well as various managers and professionals represented the agency at some 20 major events for financial sector participants.

7 AMF participation in the work of the Committee on Public Finance in relation to the protection of investors

The AMF contributed to the initiative mandate of the Committee on Public Finance, by filing a brief in April 2006 and giving a presentation before the Committee on February 7, 2007. In doing so, it sought to raise awareness among parliamentarians and the general public about measures that have been taken and are being planned to enhance investor protection, including measures pertaining to the regulation and oversight of mutual funds. For more details, the brief is available on the AMF's website.

7 Consultation on the distribution of insurance products by dealers and other automobile vendors

On October 24 and 25, 2006, the AMF held a public consultation on the distribution of insurance products by dealers and other automobile vendors. The consultation involved members of the insurance industry, automobile vendors (including dealers) and consumers, in an effort to take stock of the situation relating to the distribution of certain insurance products and other similar products.

Twenty briefs were filed in response to the consultation, and invited organizations were provided with an opportunity to present their views with respect to the most appropriate method of distributing the various insurance products currently available in Québec through automobile vendors. Disclosure regarding the compensation paid to such vendors and oversight of certain firms acting as administrators of insurance products were also covered by the consultation.

ISSUE 2

ASSIST CONSUMERS

A regulatory body such as the AMF must assist consumers of financial products and services by providing them with convenient access to quality information through various channels.

In this regard, the AMF is well suited to offer consumer assistance and disseminate relevant and objective information in plain language regarding financial products and services in Québec.

The AMF also assists consumers by providing them with the tools and services they need to protect themselves from potential losses or to exercise recourses, when necessary.

As such, the AMF has adopted the following two strategic orientations:

- raise awareness of the AMF and its role;
- improve the delivery of services to consumers.

Orientation **3****Raise awareness of the AMF and its role****AREA OF INTERVENTION**

- ▣ *Relations with the various types of clientele*

7 **Revamping of website**

In November 2006, the AMF launched its new website, combining harmonization of information with ease of navigation. The revamping of the website enabled the AMF to integrate the websites of former agencies and present the AMF under a single banner.

Concurrently with the revamping of the website, the Bulletin, the AMF's official publication, was redesigned so as to standardize the presentation of information required by the laws administered by the AMF. A table of contents was added to each edition of the Bulletin for ease of reference and in order to better reflect the integrated oversight structure.

7 **Media relations**

Throughout the year, the AMF's Media Relations unit responded to more than 1,000 requests for information from various journalists from Québec, Canada and the rest of the world.

Some 100 press releases were issued and close to 100 interviews were granted by the AMF spokesperson or other staff members. Furthermore, at certain public events (such as conferences, the *Rendez-vous with the AMF* and public consultations), a media representative was present to field questions. Finally, a press conference was set up to address the issue of investor compensation in the Norbourg matter.

7 ***Rendez-vous with the AMF***

On October 30, 2006, the AMF held its *Rendez-vous with the AMF*, a major event that attracted over 350 financial sector participants from Québec. This initial event provided an opportunity for the AMF to engage in discussions with some 20 specialists regarding its activities, particularly in matters related to regulation and compliance, as well as global issues involving financial services. This event, which will take place annually, provides a unique opportunity for the exchange of information and opinions between members of Québec's financial community, the AMF and experts on major topics of interest to the financial sector.

Orientation **4****Improve the delivery of services to consumers****AREAS OF INTERVENTION**

- ▣ *Complaints and claims*
- ▣ *Information and education*

7 Information and complaints

The trend as regards consumers remained the same this year as in 2005-2006. The majority of calls from this clientele focused on insurance and securities matters as well as on confirmation of the right to practice of representatives or firms offering financial products and services. As for financial sector participants, 28% of calls related to access to professional practice and 33% related to the right to practice.

In addition, information officers from the Information Centre welcomed over 2,400 persons at the AMF's Montréal offices and 1,449 persons at its head office in Québec City, an increase of 17% compared with last year. They also handled over 3,170 e-mails.

TABLE 5 REQUESTS FOR INFORMATION AND COMPLAINTS RECEIVED AT THE INFORMATION CENTRE

	FEBRUARY AND MARCH 2004	APRIL 2004 TO MARCH 2005	APRIL 2005 TO MARCH 2006	APRIL 2006 TO MARCH 2007
Number of telephone requests for information				
From consumers	5,068	27,043	32,836	27,767
From financial sector participants	22,890	87,110	84,059	73,385
Number of complaints received	103	856	1,056	1,986*

* Some complaints were analyzed and transferred to an AMF department or to a self-regulatory organization.

TABLE 6 NUMBER OF COMPLAINTS TRANSFERRED TO AN AMF DEPARTMENT OR TO A SELF-REGULATORY ORGANIZATION

		Number of complaints transferred*		
		APRIL 2004 TO MARCH 2005	APRIL 2005 TO MARCH 2006	APRIL 2006 TO MARCH 2007
AMF departments	Inspection	66	113	33
	Case Assessments	186	485	560
	Compensation	126	144	512
	Other	5	15	21
Self-regulatory organizations	Investment Dealers Association of Canada	14	68	51
	Montréal Exchange	12	0	0
	<i>Chambre de l'assurance de dommages</i>	47	63	69
	<i>Chambre de la sécurité financière</i>	261	375	413

* A complaint may be transferred to more than one department or organization.

— Complaint reporting system

Since its creation in 2005, the electronic complaint reporting system has provided the AMF and the Financial Services Commission of Ontario (FSCO) with declarations for three reporting periods: July 1 to December 31, 2005, January 1 to June 30, 2006 and July 1 to December 31, 2006. These declarations contain a record of the information originating from entities subject to the provisions regarding complaint examination and dispute resolution. They give a means for classifying complaints by category, according to the reasons for dissatisfaction expressed by consumers, and by type of financial product involved. The system therefore provides the AMF with data on all areas of activity overseen by it.

The AMF monitors this activity among the target clientele and provides support to users. Moreover, in an effort to reduce administrative and regulatory burdens, the AMF does not require independent representatives and firms with only one representative to file a report where no complaints have been received. However, where complaints have been received, these must be declared in accordance with the established procedure. This decision was set out in guidance addressed to independent representatives and firms with only one representative, for all sectors governed by the *Act respecting the distribution of financial products and services*. Furthermore, as regards reinsurers, the AMF no longer requires a declaration of complaints received from clients, who are essentially comprised of insurers and are themselves subject to complaint examination requirements.

In co-operation with the FSCO, the AMF has begun work on a model to extend the complaint reporting system across Canada.

7 Compensation, protection and education funds

As regards the protection of consumers of financial products and services, the AMF administers three funds: a financial services compensation fund, a deposit insurance fund and the Fund for Investor Education and the Promotion of Good Governance.

— Financial services compensation fund

The AMF pays indemnities to victims of fraud, fraudulent tactics or embezzlement for which a person or firm authorized to carry on business under the *Act respecting the distribution of financial products and services* is responsible. A claim must be received within one year of knowledge of the fraud and the maximum compensation per claim is \$200,000.

During the 2006-2007 fiscal year, the AMF announced that it would compensate approximately 925 claimants in connection with the Norbourg matter, for a total estimated amount of \$31 million.

Nearly half the claims will be compensated, namely, claims by persons who acquired Norbourg funds only through Norbourg Capital Inc. and Groupe Futur Inc.

As for the other half of claimants, unfortunately, they will not be eligible for compensation through the *Fonds d'indemnisation des services financiers* (financial services compensation fund) and their claims will be rejected. Indeed, an analysis of those cases has provided no evidence of concrete acts whereby fraudulent distribution tactics were carried out for the purpose of increasing the sale of the funds in question.

The AMF will, when appropriate, institute a recourse in subrogation against the persons responsible for the losses incurred by the claimants in this matter, for the purpose of recovering any compensation payments. In the meantime, work is under way to alter the rate structure for the fees paid annually into the compensation fund by firms, independent partnerships and independent representatives.

In 2006-2007:

- 968 claim files were opened, the vast majority of which related to the Norbourg matter, while over 1,000 cases were ruled ineligible for compensation.

In addition to these files:

- 32 claims were approved for compensation, resulting in a total payment of \$896,929. The total claim amount was \$973,042, but a portion of this amount was deemed ineligible based on applicable compensation principles;
- 21 claims were dismissed based on applicable compensation rules;
- Six civil proceedings were instituted against fraudulent representatives pursuant to subrogatory recourses launched by the AMF, and five judgments were handed down in favour of the AMF.
- One proceeding contesting AMF compensation decisions was launched and three judgments were handed down in favour of the AMF in respect of previously instituted proceedings.

As at March 31, 2007, 982 claims for compensation were under analysis. Furthermore, the AMF received nearly 1,000 claims related to the Mount Real matter. These will be processed in the coming year by AMF Compensation.

Deposit insurance fund

The AMF guarantees to every person making a deposit in a registered institution the reimbursement of such deposit in the event of the institution's insolvency. The maximum deposit insurance coverage is \$100,000 per person and per institution.

Guaranteed deposits primarily include deposits held in chequing or savings accounts, term deposits and guaranteed investment certificates. To be guaranteed, deposits must carry a term of five years or less (or be redeemable upon demand five years after the date of deposit), be held in Québec and be payable in Canadian currency.

To fulfill the guarantee, the AMF administers a deposit insurance fund financed through the premiums paid by registered institutions. The balance of the fund totalled approximately \$375 million as at March 31, 2007.

As at April 30, 2006, institutions registered with the AMF under the *Deposit Insurance Act* totalled 571 and held \$68.5 billion in deposits guaranteed by the AMF.

TABLE 7 | PROFILE OF REGISTERED INSTITUTIONS AND DEPOSITS RECEIVED AND GUARANTEED AS AT APRIL 30

Registered institutions	Number			Deposits received in Québec ¹ (\$M ²)			Deposits guaranteed by the AMF (\$M)		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Financial services cooperatives	579	551	533	70,349	73,889	77,685	44,164	52,289	54,385
Trust companies and saving companies	39	36	38	18,040	17,355	20,385	13,266	14,137	14,116
Total	618	587	571	88,389	91,244	98,070	57,430	66,426	68,501

1. Based on data available to the AMF as at March 31, 2007.

2. \$M: millions of dollars

— Fund for Investor Education and the Promotion of Good Governance

Following a call for projects in November 2006, nine projects were selected by the evaluation committee of the Fund for Investor Education and the Promotion of Good Governance. These projects will share nearly \$702,000 to finance training, education and academic research.

The mandate of the Fund is to support training and research initiatives within three areas of intervention: investor protection, investor education and the promotion of good governance.

Since its creation in May 2004, the Fund has distributed nearly \$4 million among 34 projects. A complete list of projects, including their description, is available on the AMF website.

┐ RRSP campaign

During the 2007 RRSP season, the AMF conducted a major awareness and education campaign. Urging consumers to be careful regarding investments, the AMF used various communication tools and channels, such as newspaper articles, television interviews and the Internet, to provide consumers with sound advice on RRSP investments.

┐ Publications for consumers

In December 2006, the AMF published eight theme-based brochures to help investors better understand how various products and investment strategies function and identify warning signs of investment fraud or scams.

Furthermore, as part of its partnership with *Question Retraite*, the AMF initiated and assumed responsibility for the work of the committee responsible for preparing the brochure entitled: Inflation and life expectancy: A dangerous combination for your retirement? The brochure raises awareness among consumers about the combined effect of inflation and increased life expectancy on accumulated savings available at retirement.

The AMF also published two brochures for investors regarding the Norbourg matter: The first, published in May 2006, summarizes developments in the matter from October 2004 until May 2006; the second, published at the beginning of 2007, covered the period from May 2006 to January 2007.

In addition, the AMF published a brochure to publicize its mission, its mandates and its principal activities.

All of these publications are available on the AMF website or through its Information Centre.

7 Boursstad

For the second consecutive year, the AMF partnered with Boursstad, a major stock market simulation competition. The AMF President and CEO served as the honorary chair of the 19th edition of this event, which offers the general public and college and university students the opportunity to participate in simulated securities trading via the Internet.

ISSUE 3

MOBILIZE STAFF

The scope of the AMF's mission requires co-ordination among multidisciplinary teams, particularly in the highly specialized fields of finance, actuarial services, accounting and law.

As such, the AMF seeks to recruit, retain and train staff who are able to deliver quality services.

It must therefore offer fair compensation, foster the development of skills and knowledge, and recognize and reward effort and performance.

Orientation 5

Recruit, retain and ensure the ongoing professional development of staff in order to deliver quality services

AREAS OF INTERVENTION

- ▣ *Mobilization*
- ▣ *Client service*
- ▣ *Skills management*
- ▣ *Recognition*

7 Staff survey

A staff survey (*“À l’écoute du personnel”*) was carried out to establish a starting point for a staff mobilization ratio for use in setting a growth objective for the next two years. Based on the findings of the survey, the AMF identified two organizational priorities and a number of sector-based priorities. Managers subsequently applied a structured, continuous approach, and teams were set up to develop and implement continuous improvement plans.

7 Diagnosis and corporate organizational development plan

In order to establish priorities so that actions taken by the AMF generate maximum impact on performance, an internal diagnostic process was carried out in December 2006 to review the status of six AMF organizational components: strategy, leadership, relationships, infrastructure, skills and resources, as well as human capital. Action was identified in the areas of leadership development and management of human capital and integrated into the strategies and tactics set out in the corporate organizational development plan.

A corporate organizational development plan, aligned with the AMF’s strategic plan and tailored to its organizational environment, was developed in support of targeted objectives.

7 Succession plan

A contingency succession plan was established in order to ensure sufficient human capital to satisfy the operational requirements for each Executive Director and Superintendent in the event of unforeseen vacancies in strategic positions.

ISSUE 4**OPTIMIZE PERFORMANCE**

In view of its functions as a mandatary of the State, the AMF must establish procedures and adopt tools to ensure that its activities and accountability reporting are carried out in a thorough manner.

In order to ensure the sound management of its activities, the AMF has adopted principles and practices under a corporate governance framework that are updated as necessary. It must also ensure that staff fully understand the scope of these principles and practices.

In addition, the AMF must include a risk management approach for simultaneous management of its resources, projects and activities.

Orientation 6

Manage the governance framework**AREAS OF INTERVENTION**

- ▣ *Active listening to stakeholders and ensuring their satisfaction*
- ▣ *Governance and management*

7 Policy on information security

In order to fulfill its mission and achieve its objectives, the AMF relies on a variety of information assets. In this regard, in the fall of 2006, the AMF adopted a policy on information security as well as three related guidelines in order to establish the AMF's approach to information security and determine objectives and conditions for the implementation of security measures considered to be essential for the protection of information.

7 Business continuity plan in the event of an influenza pandemic

During the past year, the AMF also put into place a *Business continuity plan in the event of an influenza pandemic*. The purpose of such a plan is to ensure the continuity of the AMF's essential operations in the event of an emergency situation, namely, an influenza pandemic. While it is difficult to accurately anticipate the timing and impact of such a pandemic, the AMF is giving this matter careful consideration.

7 Fostering awareness of the code of ethics and professional conduct

The AMF held ethical conduct awareness sessions with management staff members in April 2006 as well as workshops for all employees at corporate gatherings held in June 2006. These activities were part of the AMF's further efforts to disseminate its code of ethics and professional conduct. They provided an opportunity to foster a better understanding of the code's scope and obligations.

7 Improvement of the AMF's governance

At the request of the Advisory Board, AMF management participated in a diagnostic process in respect of AMF governance and integrated improvements based on the recommendations set out in advice prepared by the Board. The advice is more fully outlined in the Board's report.

OTHER INFORMATION



Human Resources

As at March 31, 2007, the AMF had 562 regular and budgeted staff positions, of which 529 were filled. During the period from April 1, 2006 to March 31, 2007, 69 regular employees were hired.

Codes of Ethics and Professional Conduct for the President and Chief Executive Officer and Other Public Office Holders¹

During its first year of operations, from 2004-2005, the AMF adopted two codes of ethics and professional conduct. One applies to the President and Chief Executive Officer and the other to all staff, including members who are public office holders. It should be noted that, within the AMF, the President and Chief Executive Officer, the Executive Vice-President, the Superintendents, the Corporate Secretary and the Executive Directors are considered to be public office holders.

The code of ethics and professional conduct for the President and Chief Executive Officer of the AMF and the code of ethics and professional conduct for staff members of the AMF are available on the AMF website (www.lautorite.qc.ca). Copies are also available by contacting the Information Centre toll-free at 1-877-525-0337.

From April 1, 2006 to March 31, 2007, no cases were reported involving AMF public office holders for violations of the rules pertaining to ethics or professional conduct.

Language Policy

The AMF applies a francization program approved by the *Office québécois de la langue française*. The members of its language committee provide feedback and advice to staff members with a view to its consistent application.

Access to Information

As at March 31, 2007, the AMF had processed 173 requests for access to information under the *Act respecting access to documents held by public bodies and the protection of personal information*.

1. Under paragraphs 3 and 4 of section 3.0.2 of the *Act respecting the Ministère du Conseil exécutif*, a government agency or corporation must ensure public access to its code of ethics and publish it in its annual report. It must also state the number of cases dealt with and the follow-up thereon and set out any breaches determined during the year by the disciplinary authorities, their decisions, any penalties imposed by them and the names of any public office holders revoked or suspended during the year.

Protection of Personal Information of Clients

Under the *Act respecting the distribution of financial products and services*, registered representatives and firms must protect the personal information they hold regarding clients. Inspections carried out by the AMF enable it to confirm compliance with this obligation, in particular whether:

- files containing personal information are kept under lock and key;
- the methods for disposing of files and for entering and storing data electronically are appropriate;
- insurance files are maintained separately from other files;
- client data at multidisciplinary firms are used solely for the purposes for which they were collected;
- representatives are able to meet clients in a location where confidentiality is assured.

APPENDIX

Report on regulatory activities relating
to the *Securities Act*,
required under section 335.1
for the period ended March 31, 2007



Regulations brought into force in 2006-2007

REGULATION 21-101 RESPECTING MARKETPLACE OPERATION

Description

Regulation 21-101 respecting Marketplace Operation is part of an initiative of the Canadian Securities Administrators (CSA), including the AMF, designed to create a regulatory framework enabling competition between traditional securities exchanges and new marketplaces, such as alternative trading systems. Proposed amendments to the Regulation were published for comment in 2004 and 2006. Through these amendments, which were approved by the Minister of Finance in March 2007, the Regulation was harmonized across Canada.

The objectives of the amendments were to replace the data consolidation and market integration requirements provided for in the Regulation with certain technological standards and with obligations regarding fair access and best execution. Furthermore, transparency requirements were added with respect to corporate debt securities, while an exemption from the transparency requirements was provided for government debt securities until January 2012. Obligations related to information processors and to the production of consolidated feeds by information processors were also added. Marketplaces must make available to the public any technology requirements regarding their trading system, for a period of two months immediately prior to operating, as well as testing facilities for a period of one month. Finally, amendments to the record-keeping requirements for marketplaces had the effect, among other things, of requiring marketplaces to transmit information within a period of 10 days.

Impact on the securities market and on investors

The amendments provide marketplaces with more flexibility by allowing them to send information on orders and trades to an information vendor, rather than to an information processor, and by removing the concept of market integrator. The amendments also increased the transparency of corporate debt securities for investors. The CSA have noted that the level of transparency on the market for government debt securities has increased and expect this trend to continue. At the request of certain stakeholders, the CSA extended the exemption with respect to the transparency requirements until 2012. Finally, the new obligations imposed upon marketplaces, prior to their operation, will facilitate the launch of business on new marketplaces for marketplace participants.

Concordant regulation

Regulation 23-101 respecting Trading Rules

Date of coming into force

March 21, 2007

Date of publication in the AMF Bulletin

March 23, 2007

REGULATION 23-101 RESPECTING TRADING RULES

Description

Regulation 23-101 respecting Trading Rules is part of a CSA regulatory initiative designed to impose common trading rules on all marketplaces. Proposed amendments to the Regulation were published for comment in 2004 and 2006. Through these amendments, which were approved by the Minister of Finance in March 2007, the Regulation was harmonized across Canada.

The principal objectives of the amendment were to change the obligations relating to audit trails and to postpone the date of coming into force of the requirements imposed upon dealers and inter-dealer bond brokers to maintain and transmit records in electronic form.

Impact on the securities market and on investors

The amendments added more components to the information that dealers and inter-dealer bond brokers are required to maintain, in order to enhance the oversight and review capabilities of supervisory entities. Moreover, following the adoption of these amendments, dealers and inter-dealer bond brokers will have a longer period of time before having to comply with the electronic audit trail requirements (until January 1, 2010). During this period, the CSA will continue their work and will develop an implementation plan. Moreover, in order to ease implementation, an exemption is provided to participants who comply with similar audit trail requirements established by a regulation services provider and approved by the applicable securities regulatory authority.

Concordant regulation

Regulation 21-101 respecting Marketplace Operation

Date of coming into force

March 21, 2007

Date of publication in the AMF Bulletin

March 23, 2007

REGULATION 24-101 RESPECTING INSTITUTIONAL TRADE MATCHING AND SETTLEMENT

Description

Regulation 24-101 respecting Institutional Trade Matching and Settlement is a CSA initiative. The Regulation was published for comment in 2004 and 2006.

The Regulation establishes a general framework, across Canada, to improve and accelerate trade settlement, particularly institutional trades.

Impact on the securities market and on investors

The Regulation provides several advantages for Canada's capital markets, in particular:

- reduced processing fees and operational risks, through the establishment of direct processing systems;
- protection of liquidity in the Canadian market;
- reduced settlement risks;
- general decrease in systemic risks for Canada's capital markets and enhanced competitiveness of those markets internationally.

Concordant regulation

None

Date of coming into force

April 1, 2007

Date of publication in the AMF Bulletin

March 23, 2007

**REGULATION TO AMEND REGULATION 31-101
RESPECTING NATIONAL REGISTRATION SYSTEM****Description**

Regulation 31-101 respecting National Registration System is a CSA initiative. The National Registration System (NRS) allows securities dealers and advisers, savings brokerage firms and the individuals sponsored by them to file, with the principal regulator, an application for registration, for changes to a registration or for reinstatement of a registration, and it provides for the approval of certain sponsored individuals.

The NRS is based on the principal regulator concept. A filer's principal regulator is the securities regulatory authority in the jurisdiction in which the firm has its head office. For individuals, it is the securities regulatory authority in the jurisdiction in which the individual filer's working office is located. The purpose of the Regulation to amend Regulation 31-101 is to establish that these criteria for determining the principal regulator are exclusive criteria.

Impact on the securities market and on investors

The NRS has improved the functioning of the existing registration system thanks to the mutual reliance review system. The principles of mutual reliance are applied in analyzing applications for registration and for approval so as to reduce overlaps in the analysis of applications filed concurrently or consecutively in several jurisdictions.

Concordant regulation

None

Date of coming into force

August 23, 2006

Date of publication in the AMF Bulletin

August 25, 2006

**REGULATION TO AMEND REGULATION 51-102
RESPECTING CONTINUOUS DISCLOSURE OBLIGATIONS****Description**

Regulation 51-102 respecting Continuous Disclosure Obligations defines the obligations of reporting issuers, other than investment funds, with respect to financial statements, the MD&A, the annual information form, disclosure of material changes, information circulars, disclosure regarding restricted securities and certain other matters with respect to continuous disclosure. The Regulation simplifies the obligations relating to business acquisition reports, clarifies certain provisions and codifies certain discretionary exemptions granted in the past by the CSA, including the AMF.

Impact on the securities market and on investors

The purpose of the Regulation to amend Regulation 51-102 is to target business acquisitions that are significant for an issuer and simplify the presentation of information about the acquisition to the market.

Concordant regulations

- *Regulation to amend Regulation 52-107 respecting Acceptable Accounting Principles, Auditing Standards and Reporting Currency*
- *Regulation to amend Regulation 71-102 respecting Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*
- *Regulation to repeal Regulation No. 3 respecting Unacceptable Auditors*

Date of coming into force

December 29, 2006

Date of publication in the AMF Bulletin

January 5, 2007

REGULATION 81-107 RESPECTING INDEPENDENT REVIEW COMMITTEE FOR INVESTMENT FUNDS

Description

Regulation 81-107 respecting Independent Review Committee for Investment Funds is designed to impose a minimum standard of governance for all investment funds and ensure that investment fund managers work in the interests of security holders. Every investment fund that is a reporting issuer will be required to create an independent review committee (IRC) composed of at least three independent directors, so that the IRC can monitor all situations of conflict of interest in respect of which a reasonable person would consider that the fund manager or an entity related to the manager has an interest that may conflict with the manager's ability to act in good faith and in the best interests of the investment fund.

Two major classes of conflict of interest are defined in the Regulation: structural conflicts and business or operating conflicts. Structural conflicts are currently prohibited by regulation. However, under Regulation 81-107, a fund manager can proceed with a proposed action notwithstanding the prohibition, if the IRC approves the action and concludes that it would not be detrimental to security holders. Business or operating conflicts are subject to a recommendation from the IRC.

Impact on the securities market and on investors

The creation of an IRC that is familiar with the functioning of the investment fund and monitors conflict of interest situations involving the fund manager will provide better protection for investors and a means for settling conflict of interest matters effectively. Regulation 81-107 should give greater flexibility to fund managers in administering investment funds, while ensuring that the interests of security holders prevail, thanks to the creation of the IRC and the fiduciary duties of its members.

Concordant regulations

- *Regulation 13-101 respecting the System for Electronic Document Analysis and Retrieval (SEDAR)*
- *Regulation 81-101, Mutual Fund Prospectus Disclosure*
- *Regulation 81-102, Mutual Funds*
- *Regulation 81-104 respecting Commodity Pools*
- *Regulation 81-106 respecting Investment Fund Continuous Disclosure*

Date of coming into force

November 15, 2006 (November 1, 2006 in the other Canadian jurisdictions). However, a one-year transition period until November 1, 2007 is provided for. The IRC must have been put into place no later than May 1, 2007.

Date of publication in the AMF Bulletin

November 17, 2006

Important Draft Regulations**PROPOSED REGULATION 11-102 RESPECTING PASSPORT SYSTEM****Description**

Proposed Regulation 11-102 respecting Passport System constitutes the second phase of the proposed passport system promoted by the provincial and territorial governments, excluding the government of Ontario, which signed the Provincial-Territorial Memorandum of Understanding Regarding Securities Regulation in September of 2004.

Its objective is to implement a system, in the principal areas of securities regulation (prospectuses, registration, discretionary exemptions and continuous disclosure), through which market participants can gain access to the capital markets of several jurisdictions while dealing only with their principal regulator and complying with the provisions of a set of harmonized laws.

Impact on the securities market and on investors

Proposed Regulation 11-102 will further simplify the securities regulatory system for issuers whose securities trade in various Canadian jurisdictions and registrants with clients throughout those jurisdictions, by providing them with a single window of access to the Canadian markets. It will also eliminate the professional costs related to the involvement of several regulators and the need to comply with different regulatory provisions.

Concordant regulations

- Draft Regulation to repeal Regulation 11-101 respecting Principal Regulator System
- Draft Regulation to amend National Instrument 14-101, Definitions
- Draft Regulation to repeal Regulation 31-101 respecting National Registration System
- Draft Regulation to amend Regulation 58-101 respecting Disclosure of Corporate Governance Practices
- Draft Regulation to amend Regulation 81-104 respecting Commodity Pools

Date of publication in the AMF Bulletin (for comment)

March 30, 2007

End of comment period

June 8, 2007

DRAFT REGULATION 31-103 RESPECTING REGISTRATION REQUIREMENTS

Description

The reform of securities registration requirements is provided for in draft Regulation 31-103 respecting Registration Requirements which was published for comment by the CSA until June 20, 2007.

This initiative began in 2005. The draft gives effect to the new “business trigger” registration criterion as well as certain fundamental principles of the client relationship model, which is currently being examined by SRO (self-regulatory organization) committees.

Regulations regarding the National Registration Database (NRD) (*Regulation 31-102 respecting National Registration Database* and *Regulation 33-109 respecting Registration Information*) were also published for comment and will soon be fully harmonized across Canada.

The principal terms of the draft submitted for comment are:

- A new registration scheme for investment fund managers, a long-awaited part of the oversight of the mutual fund sector;
- New registration categories for firms;
- New registration categories for representatives;
- SRO membership requirement, including for mutual fund firms in Québec;
- New harmonized rules regarding the requirements of proficiency for representatives and the solvency of firms (new obligations with respect to regulatory capital and insurance);
- New harmonized rules of conduct dealing with several elements of the internal governance of firms in all categories (except for managers); the respective roles of the ultimate designated person and the chief compliance officer are specified; all conflict of interest rules are consolidated and modernized; the complaint examination rules are based on the Québec system;
- Simplified rules for the suspension of firms and representatives, based on the Québec model;
- Consolidation of most of the registration exemptions in a single regulatory text.

Impact on the securities market and on investors

In Québec, registration reform would have significant consequences on the legislative and regulatory oversight of mutual fund firms and representatives, because the reform falls within a context of harmonization. Thus, all the particular characteristics of Québec’s framework for overseeing this industry sector are being considered.

Currently, the group savings plan brokerage sector, the scholarship plan brokerage sector and the investment contract brokerage sector are governed by the *Act respecting the distribution of financial products and services* (Distribution Act).

Firms and their representatives are regulated directly by the AMF. The firms contribute to the *Fonds d’indemnisation des services financiers* (financial services compensation fund). As for the *Chambre de la sécurité financière* (CSF), it oversees the discipline, training and professional conduct of representatives. The CSF

is an SRO under the provisions of the Distribution Act. In the rest of Canada, the Mutual Fund Dealers Association of Canada (MFDA) is recognized as an industry SRO and, as such, regulates firms and, indirectly, their “authorized persons” (the senior executives and representatives).

As part of its work, the AMF met with several stakeholders in this sector, including the various organizations concerned, in order to properly identify the related issues and the consequences of this reform on Québec’s regulatory framework. The need for a specific consultation therefore became obvious. The comment period for this consultation ended on May 25, 2007.

Specifically, the proposed registration reform would have the following consequences:

- Mutual fund firms and their representatives, which are now governed by the Distribution Act, would henceforth be governed by the Québec *Securities Act* (QSA);
- Mutual fund firms, which would become mutual fund dealers, would be subject to requirements equivalent to MFDA requirements regarding regulatory capital and to financial institution bonding requirements, in the same manner as mutual fund dealers outside Québec; they would also be required to file the full MFDA report and financial questionnaire.

In the proposal document, the AMF recommended that consideration be given to membership by Québec mutual fund firms in an industry SRO.

Concordant regulations

- *Securities Regulation, Title V*
- *Regulation Q-17 respecting Restricted Shares*
- *Regulation Q-25 respecting Real Estate Mutual Funds*
- *Regulation Q-26 respecting Restrictions on Trading During a Distribution by Prospectus*
- *Regulation respecting the Issuance and Renewal of Representatives’ Certificates*
- *Regulation respecting the Pursuit of Activities as a Representative*
- *Regulation respecting Information to Be Provided to Consumers*
- *Regulation respecting the Eligibility of a Claim Submitted to the Fonds d’indemnisation des services financiers*
- *Regulation respecting the Registration of Firms, Representatives and Independent Partnerships*
- *Regulation respecting Firms, Independent Representatives and Independent Partnerships*
- *Regulation respecting the Keeping and Preservation of Books and Registers*
- *Regulation respecting Brokerage Activities in Connection With Loans Secured By Immovable Hypothec*

Date of publication in the AMF Bulletin (for comment)

February 23, 2007

End of comment period

June 20, 2007

DRAFT REGULATION 41-101 RESPECTING GENERAL PROSPECTUS REQUIREMENTS

Description

Draft Regulation 41-101 respecting General Prospectus Requirements is a Canada-wide reform of the general prospectus requirements.

Impact on the securities market and on investors

Draft Regulation 41-101 and the consequential amendments represent an additional step toward harmonization of prospectus and disclosure requirements throughout Canada. The proposed amendments will primarily affect issuers, including investment funds, that use a long form prospectus to distribute their securities, as well as the investors who subscribe for those securities. Thanks to harmonization throughout Canada and the reform of general prospectus requirements, the transaction costs for issuers that distribute securities in more than one jurisdiction will decrease.

Concordant regulations

- Draft Regulation to amend National Instrument 14-101, Definitions
- Draft Regulation to amend Regulation 44-101 respecting Short Form Prospectus Distributions
- Draft Regulation to amend Regulation 44-102 respecting Shelf Distributions
- Draft Regulation to amend Regulation 44-103 respecting Post-Receipt Pricing
- Draft Regulation to amend Regulation 45-101 respecting Rights Offerings
- Draft Regulation to amend Regulation 51-102 respecting Continuous Disclosure Obligations
- Draft Regulation to amend Regulation 81-101 respecting Mutual Fund Prospectus Disclosure
- Draft Regulation to amend Regulation 81-102 Mutual Funds (French version only)
- Draft Regulation to amend Regulation 81-104 respecting Commodity Pools
- Draft Regulation to repeal Regulation Q-28 respecting General Prospectus Requirements
- Draft Regulation to repeal Regulation No. 14 respecting Acceptability of Currencies in Material Filed with Securities Regulatory Authority
- Draft Regulation to repeal National Policy No. 21, National Advertising – Warnings

Date of publication in the AMF Bulletin (for comment)

December 21, 2006

End of comment period

March 31, 2007

DRAFT REGULATION TO AMEND REGULATION 51-102 RESPECTING CONTINUOUS DISCLOSURE OBLIGATIONS

Description

The proposed executive compensation form will replace existing Form 51-102F6, *Statement of Executive Compensation*.

The other amendments to Regulation 51-102 pertain to Form 51-102F2, *Annual Information Form*, and Form 51-102F5, *Information Circular*.

Impact on the securities market and on investors

The purpose of the texts dealing with executive compensation is to improve the quality and transparency of executive compensation disclosure. Greater transparency will allow users to assess the process by which compensation decisions are made at a company. It will also provide insight into a key aspect of a company's overall stewardship and governance.

The other amendments published for comment would amend the definition of "venture issuer" to remove large debt-only issuers from the definition, and would also reduce the requirement for directors, executive officers and significant shareholders to disclose cease trade and similar orders issued against other companies they were involved with.

Concordant regulations

- Draft Regulation to amend Regulation 52-110 respecting Audit Committees
- Draft Regulation to amend Regulation 58-101 respecting Disclosure of Corporate Governance Practices
- Draft Regulation to amend Regulation Q-28 respecting General Prospectus Requirements

Date of publication in the AMF Bulletin (for comment)

March 30, 2007

End of comment period

June 30, 2007

DRAFT REPEAL AND REPLACEMENT OF REGULATION 52-109 RESPECTING CERTIFICATION OF DISCLOSURE IN ISSUERS' ANNUAL AND INTERIM FILINGS

Description

Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings has been in force since June 30, 2005.

An initial draft repeal and replacement of Regulation 52-109 was published for comment in February 2005, as a corollary to draft Regulation 52-111 respecting Reporting on Internal Control over Financial Reporting.

Following this consultation, the CSA decided not to bring Regulation 52-111 into force, but, instead, to add requirements regarding the internal control over financial reporting of issuers in a second draft Repeal and Replacement of Regulation 52-109 (currently under consultation).

The following are the new requirements:

- The chief executive officer and the chief financial officer (the “certifying officers”) will be required to certify that they have evaluated the effectiveness of the issuer’s internal control over financial reporting (ICFR) at the financial year-end. They will also be required to cause the issuer to disclose in its annual MD&A their conclusions about the effectiveness of ICFR, including a description of the ICFR evaluation process used, a description of any reportable deficiency relating to operation of ICFR existing at the financial year-end, as well as the issuer’s plans, if any, to remediate any such reportable deficiency;
- The issuer will be required to disclose in its MD&A a statement identifying the control framework used by the certifying officers to design the ICFR or a statement that they did not use such a framework;
- For any reportable deficiency relating to design of ICFR that existed at the end of the period to which the certificate relates, the issuer will be required to disclose in its MD&A a description of the reportable deficiency, a description of the remediation plan to address the reportable deficiency and the completion date or expected completion date of the remediation plan;
- The certifying officers will be required to certify that they have disclosed to the issuer’s auditors, board of directors and audit committee any fraud that involves management or other employees, uncovered during their most recent ICFR evaluation.

Moreover, the draft Repeal and Replacement of Regulation 52-109 contains relief and exemptions for venture issuers and for certain distributions, including businesses acquired not more than 90 days before the end of the period to which the certificate relates.

These requirements would apply, at the earliest, to financial years ended June 30, 2008.

Impact on the securities market and on investors

Draft Regulation 52-111, published for comment in February 2005, included the requirement to obtain a report from the external auditors on an issuer’s internal control over financial reporting. This requirement currently exists in the United States, but has proven itself to be very costly. The CSA have opted to set aside this requirement and propose a more moderate approach, which takes into consideration the greater percentage of smaller reporting issuers in Canada. The purpose of this new proposal is to balance the costs and advantages associated with internal control reporting requirements, while directing management’s efforts toward the quality of ICFR and increasing its accountability.

Concordant regulation

None

Date of publication in the AMF Bulletin (for comment)

March 30, 2007

End of comment period

June 28, 2007

DRAFT REGULATION 62-104 RESPECTING TAKE-OVER BIDS AND ISSUER BIDS AND DRAFT REGULATION 61-101 RESPECTING THE PROTECTION OF MINORITY SECURITY HOLDERS IN SPECIAL TRANSACTIONS

Description

Draft Regulation 62-104 respecting Take-Over Bids and Issuer Bids is designed to harmonize the provisions dealing with take-over bids and issuer bids as well as the early warning system in Canada, including the adoption of such provisions by jurisdictions that do not currently regulate take-over bids or issuer bids.

Draft Regulation 61-101 respecting the Protection of Minority Security Holders in Special Transactions is designed primarily to harmonize and consolidate in a single text the Québec and Ontario rules applicable to take-over bids made by insiders, to issuer bids, to business combinations and to related party transactions.

Impact on the securities market and on investors

Offerors seeking to make a take-over or issuer bid concurrently in several jurisdictions must familiarize themselves with the rules of each jurisdiction in which the target issuer has security holders, and must therefore consult the multitude of laws and regulations in force. Once draft Regulation 62-104 is in force, offerors and other market participants will generally have to comply with only one set of take-over and issuer bid requirements and restrictions in Canada.

Draft Regulation 61-101 will create a single, harmonized text that will apply to the transactions in question both in Québec and in Ontario.

These two regulations are expected to come into force at the end of 2007.

Concordant regulation

Regulation to amend Regulation 62-103 respecting the Early Warning System and Related Take-over Bid and Insider Reporting Issues

Date of publication in the AMF Bulletin (for comment)

- For Draft Regulation 62-104: April 28, 2006
- For Draft Regulation 61-101: August 25, 2006

End of comment period

- For Draft Regulation 62-104: July 28, 2006
- For Draft Regulation 61-101: November 23, 2006

FINANCIAL STATEMENTS

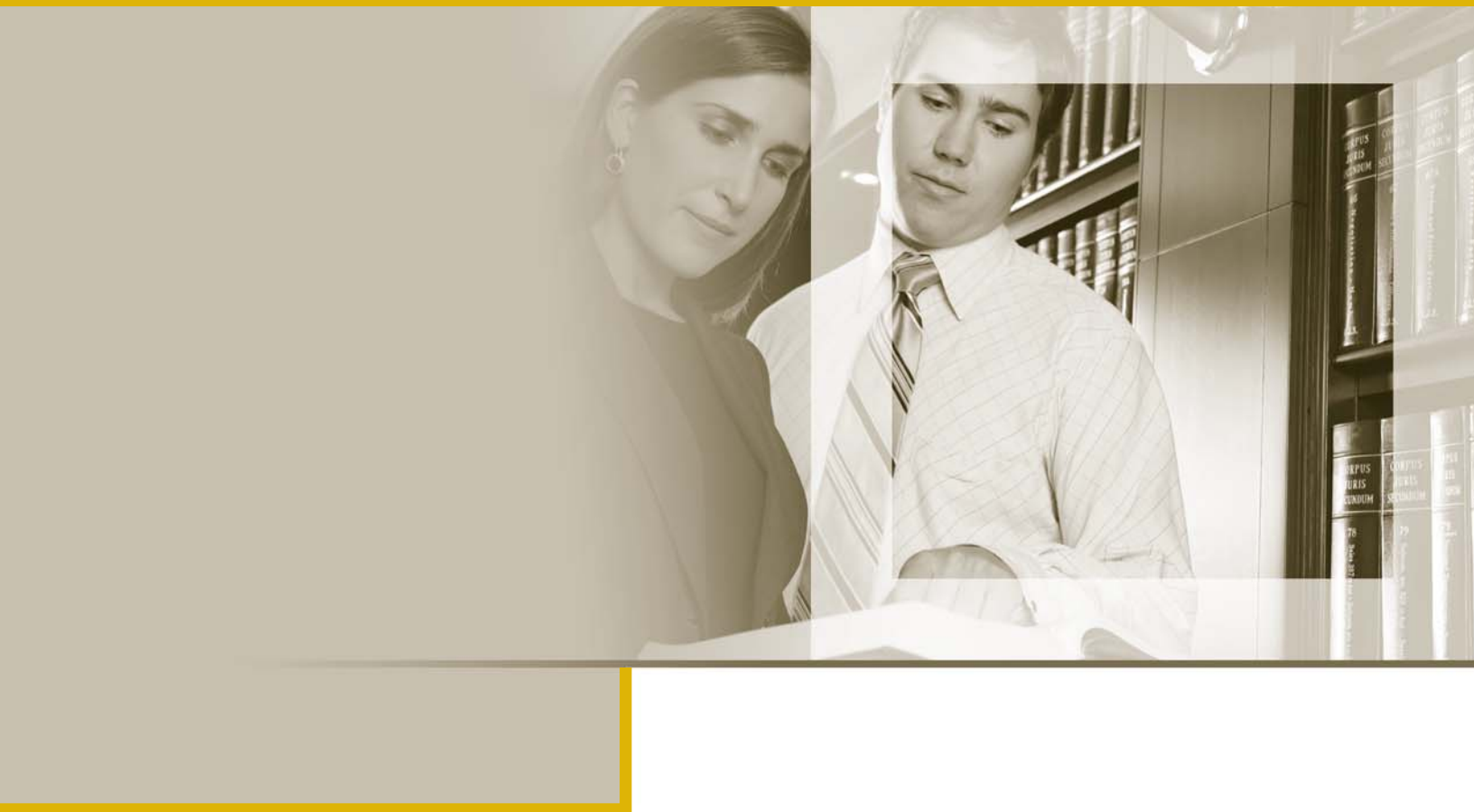


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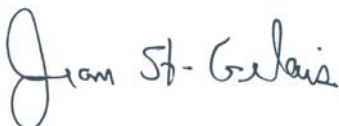
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The financial statements of the *Autorité des marchés financiers* (AMF) and the *Fonds d'indemnisation des services financiers* were drawn up by management, which is responsible for their preparation, presentation and the significant judgments and estimates included therein. This responsibility involves the selection of appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfill its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded on a timely basis and in a manner suitable for preparing reliable financial statements. Management carried out periodic checks to ensure that internal controls are properly, consistently and uniformly applied by the AMF.

The AMF recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. In this regard, the AMF continues to work in order to determine the management and rate mechanisms in connection with the situation presented in note 3 of the financial statements.

The Auditor General of Québec has audited the financial statements of the AMF and the *Fonds d'indemnisation des services financiers* in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and expresses his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to the audit.



Jean St-Gelais
President and Chief Executive Officer



Linda Levasseur
Executive Director, Administration

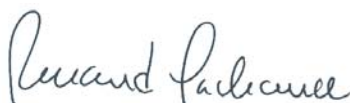
Québec City, June 8, 2007

To the National Assembly

I have audited the balance sheets of the *Autorité des marchés financiers* (AMF) and the *Fonds d'indemnisation des services financiers* as at March 31, 2007 and the statements of income, accumulated surplus and cash flows of the AMF and the statements of income and fund balances of the *Fonds d'indemnisation des services financiers* for the year ended March 31, 2007. These financial statements are the responsibility of the AMF's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the AMF and the *Fonds d'indemnisation des services financiers* as at March 31, 2007 and the results of operations and cash flows of the AMF and the *Fonds d'indemnisation des services financiers* for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q. c. V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.



Renaud Lachance, CA
Auditor General of Québec

Québec City, June 8, 2007

INCOME
for the year ended March 31, 2007

			2007	2006
	CURRENT OPERATIONS \$	DEPOSIT INSURANCE FUND \$	TOTAL \$	TOTAL \$
REVENUE				
Fees, contributions and premiums	70,644,998	12,560,021	83,205,019	75,517,133
Interest	2,233,195	18,212,506	20,445,701	15,369,455
Other	1,913,753		1,913,753	2,430,454
Settlements and fines	1,524,819		1,524,819	2,735,707
	76,316,765	30,772,527	107,089,292	96,052,749
EXPENSES				
Salaries and employee benefits	44,488,642	386,927	44,875,569	40,701,382
Occupancy expenses	4,708,313		4,708,313	4,085,265
Professional services	7,037,445		7,037,445	6,665,755
Supplies, documentation and maintenance	1,510,567		1,510,567	1,332,811
Business expense and reception	1,682,312	25,219	1,707,531	1,226,472
Communications, information	994,502	259,792	1,254,294	775,560
Telecommunications	458,959		458,959	449,317
Contribution to the <i>Bureau de décision et de révision en valeurs mobilières</i>	2,125,000		2,125,000	1,362,589
Fees related to legislation	801,800		801,800	850,000
Other	2,368,207	15,056	2,383,263	2,073,446
Amortization of fixed assets	1,883,838		1,883,838	1,881,623
Amortization of intangible assets	956,517		956,517	902,146
Amortization of start-up costs	1,159,948		1,159,948	1,159,949
Administrative expenses attributed to the <i>Fonds</i> (Note 4)	(886,435)	473,671	(412,764)	(372,177)
	69,289,615	1,160,665	70,450,280	63,094,138
Surplus for the year before the following (Note 3)	7,027,150	29,611,862	36,639,012	32,958,611
Use of designated fund (Note 6)	(1,056,354)		(1,056,354)	(1,002,257)
Surplus for the year	5,970,796	29,611,862	35,582,658	31,956,354

The accompanying notes are an integral part of the financial statements.

ACCUMULATED SURPLUS
for the year ended March 31, 2007

	2007					2006
			CURRENT OPERATIONS	DEPOSIT INSURANCE FUND		
	SURPLUS \$	CONTINGENCY RESERVE \$	DESIGNATED FUND \$	UNAPPROPRIATED SURPLUS \$	TOTAL \$	TOTAL \$
Balance, beginning of year	15,169,998	33,529,869	13,204,981	344,336,279	406,241,127	374,284,773
Surplus for the year	5,970,796			29,611,862	35,582,658	31,956,354
Use of designated fund (Note 6)	1,056,354		(1,056,354)			
Balance, end of year	22,197,148	33,529,869	12,148,627	373,948,141	441,823,785	406,241,127

The accompanying notes are an integral part of the financial statements.

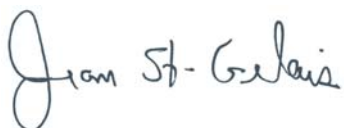
BALANCE SHEET

			As at March 31, 2007	As at March 31, 2006
	CURRENT OPERATIONS \$	DEPOSIT INSURANCE FUND \$	TOTAL \$	TOTAL \$
ASSETS				
Current assets				
Cash	1,720,624	1,743	1,722,367	3,506,485
Investments (Note 8)	65,832,157	373,999,631	439,831,788	403,646,362
Accounts receivable (Note 9)	15,966,868		15,966,868	14,827,563
Receivable – Current operations		36,568		
Interest receivable	1,244,274	1,909,050	3,153,324	2,189,340
Prepaid expenses	924,131	922	925,053	504,592
	85,688,054	375,947,914	461,599,400	424,674,342
Accounts receivable (Note 9)	929,350		929,350	1,017,258
Fixed assets (Note 10)	7,910,072		7,910,072	7,777,266
Intangible assets (Note 11)	1,248,276		1,248,276	1,673,126
Start-up costs (Note 12)	2,126,572		2,126,572	3,286,520
	97,902,324	375,947,914	473,813,670	438,428,512

BALANCE SHEET (cont.)

			As at March 31, 2007	As at March 31, 2006
	CURRENT OPERATIONS \$	DEPOSIT INSURANCE FUND \$	TOTAL \$	TOTAL \$
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 13)	10,593,761	482	10,594,243	10,636,645
Payable – deposit insurance fund	36,568			
Refundable fees and contributions	301,835		301,835	827,015
Allowance for vacation time, sick leave and severance benefits (Note 14)	4,516,880		4,516,880	4,181,479
Deferred revenue	7,654,065	999,291	8,653,356	8,665,350
	23,103,109	999,773	24,066,314	24,310,489
Long-term portion of allowance for vacation time, sick leave and severance benefits (Note 14)	6,923,571		6,923,571	6,876,896
	30,026,680	999,773	30,989,885	31,187,385
NET EQUITY				
Government of Québec contribution		1,000,000	1,000,000	1,000,000
Accumulated surplus				
Accumulated surplus	22,197,148	373,948,141	396,145,289	359,506,277
Contingency reserve (Note 15)	33,529,869		33,529,869	33,529,869
Designated fund (Note 6)	12,148,627		12,148,627	13,204,981
	67,875,644	373,948,141	441,823,785	406,241,127
	67,875,644	374,948,141	442,823,785	407,241,127
	97,902,324	375,947,914	473,813,670	438,428,512
COMMITMENTS AND CONTINGENCIES (Notes 17 et 18)				

The accompanying notes are an integral part of the financial statements.



Jean St-Gelais
President and Chief Executive Officer
Autorité des marchés financiers



Linda Levasseur
Executive Director, Administration
Autorité des marchés financiers

CASH FLOWS
or the year ended March 31, 2007

	2007		2006
	CURRENT OPERATIONS \$	DEPOSIT INSURANCE FUND \$	TOTAL \$
OPERATING ACTIVITIES			
Surplus for the year	5,970,796	29,611,862	35,582,658
Items not affecting cash			
Amortization of fixed assets	1,883,838		1,883,838
Amortization of intangible assets	956,517		956,517
Amortization of start-up costs	1,159,948		1,159,948
Gain on disposal of fixed assets	(2,495)		(2,495)
	9,968,604	29,611,862	39,580,466
Change in non-cash operating items			
Accounts receivable	(1,051,732)	335	(1,051,397)
Receivable – deposit insurance fund	101,900		
Receivable – current operations		(36,568)	
Interest receivable	(564,913)	(399,071)	(963,984)
Prepaid expenses	(420,982)	521	(420,461)
Accounts payable and accrued liabilities	(205,953)	(187,427)	(393,380)
Payable – current operations		(101,900)	
Payable – deposit insurance fund	36,568		
Refundable fees and contributions	(525,180)		(525,180)
Allowance for vacation time, sick leave and severance benefits	382,076		382,076
Deferred revenue	556,539	(568,533)	(11,994)
	(1,691,677)	(1,292,643)	(2,984,320)
Cash flows related to operating activities	8,276,927	28,319,219	36,596,146

CASH FLOWS (cont.)
or the year ended March 31, 2007

			2007	2006
	CURRENT OPERATIONS \$	DEPOSIT INSURANCE FUND \$	TOTAL \$	TOTAL \$
INVESTING ACTIVITIES				
Acquisition of investments	(49,156,461)	(28,479,012)	(77,635,473)	(84,240,110)
Proceeds from disposal of investments	51,714,952		51,714,952	48,886,523
Additions to fixed assets (Note 19)	(1,855,570)		(1,855,570)	(712,711)
Proceeds from disposal of fixed assets	2,495		2,495	18,387
Additions to intangible assets (Note 19)	(341,763)		(341,763)	(432,035)
Cash flows related to investing activities	363,653	(28,479,012)	(28,115,359)	(36,479,946)
Net change in cash and cash equivalents	8,640,580	(159,793)	8,480,787	377,914
Cash and cash equivalents, beginning of year	3,505,044	258,279	3,763,323	3,385,409
Cash and cash equivalents, end of year	12,145,624	98,486	12,244,110	3,763,323
Cash and cash equivalents, end of year include:				
Cash	1,720,624	1,743	1,722,367	3,506,485
Investments	10,425,000	96,743	10,521,743	256,838
	12,145,624	98,486	12,244,110	3,763,323

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

As at March 31, 2007

1 Incorporation and Mission

The *Autorité des marchés financiers* (the “AMF”) is a legal person and a mandatary of the State, created under the *Act respecting the Autorité des marchés financiers* (R.S.Q. c. A-33.2), which came into effect on February 1, 2004. Reporting to the Minister of Finance, the AMF is funded by various financial sector stakeholders.

The AMF is the body that administers the regulatory framework governing Québec’s financial sector. On February 1, 2004, it replaced the *Bureau des services financiers*, the *Commission des valeurs mobilières du Québec*, the *Fonds d’indemnisation des services financiers*, the Inspector General of Financial Institutions (financial services only) and the *Régie de l’assurance-dépôts du Québec*. At that time, it acquired the rights and assumed the obligations of these entities.

The mission of the Authority is to:

- Provide assistance to consumers of financial products and services, in particular by setting up consumer-oriented educational programs on financial products and services, processing complaints filed by consumers and giving consumers access to dispute-resolution services;
- Ensure that the financial institutions and other regulated entities of the financial sector comply with the solvency standards applicable to them as well as with the obligations imposed on them by law with a view to protecting the interests of consumers of financial products and services, and take any measure provided by law for those purposes;
- Supervise the activities connected with the distribution of financial products and services, administer the rules governing eligibility for and the carrying on of those activities and take any measure provided by law for those purposes;
- Supervise stock market and clearing house activities and monitor the securities market, in particular, by administering the controls provided by law as regards access to the public capital market, ensuring that the issuers and other practitioners involved in the financial sector comply with the obligations imposed on them by law and taking any measure provided by law for those purposes;
- See to the implementation of protection and compensation programs for consumers of financial products and services and administer the compensation funds set up by law.

Notes to Financial Statements

As at March 31, 2007

The AMF administers a deposit insurance fund. Under section 52.2 of the *Deposit Insurance Act*, any net income accumulated in the deposit insurance fund must be entered as a separate item in any of the AMF's statements of assets and liabilities and must be listed as being added to or subtracted from the deposit insurance fund. In order to supply complete financial information, the AMF also presents the operations and other asset and liability items of the deposit insurance fund separately. The purpose of this fund, set up under the *Deposit Insurance Act* (R.S.Q. c. A-26), is to:

- Govern the soliciting and receiving of deposits of money from the public;
- Guarantee to every person who makes a deposit of money with a registered institution the payment, on their respective maturity dates, of the principal and interest on such deposit, up to \$100,000;
- Manage a deposit insurance fund;
- Administer a permit system.

Under this Act:

- The deposit insurance fund must be maintained to execute the guarantee obligation and to exercise certain powers. The premiums collected by the fund are paid into it together with any sums the Minister of Finance may, with the authorization of the Government and on such conditions as the latter may determine, pay into it from time to time;
- When the resources of the deposit insurance fund are insufficient for the payment of its obligations or the exercise of its powers, the Minister of Finance, with the authorization of the Government and on such conditions as it determines, may make advances to the fund or guarantee the payment of any of the fund's commitments. The total unpaid balance of these advances and guaranteed commitments may not exceed \$700,000,000.

The AMF also administers a financial services compensation fund called the *Fonds d'indemnisation des services financiers*, created under section 258 of the *Act respecting the distribution of financial products and services*, as amended by section 424 of the *Act respecting the Autorité des marchés financiers*. This fund is assigned to the payment of indemnities payable to victims of fraud, fraudulent tactics or embezzlement for which a firm, an independent representative or an independent partnership is responsible. Under section 274 of the *Act respecting the distribution of financial products and services*, the AMF must keep separate records and the assets of the fund are not part of the assets of the AMF. The financial statements of the *Fonds d'indemnisation des services financiers* are presented in Note 21.

Chambre de la sécurité financière and Chambre de l'assurance de dommages

In administering the *Act respecting the distribution of financial products and services* and to facilitate the dues collection process of the *Chambre de la sécurité financière* and the *Chambre de l'assurance de dommages*, the AMF has, under various agreements, taken charge of collecting membership dues for these entities. During the year, the AMF collected dues totalling \$7,598,913 (\$8,288,436 in 2006) on behalf of and remitted \$7,589,712 (\$8,295,573 in 2006) to the *Chambre de la sécurité financière*; the AMF collected dues totalling \$3,422,664 (\$4,098,309 in 2006) on behalf of and remitted \$3,743,658 (\$3,686,439 in 2006) to the *Chambre de l'assurance de dommages*.

2 Accounting Policies

The preparation of the AMF's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

Investments are recorded at cost less any permanent decline in value.

Fixed assets

Fixed assets are recorded at cost and amortized on a straight-line basis over the following useful lives:

Computer equipment	3 years
Office furniture and equipment and leasehold improvements – equipment	5 years
Leasehold improvements – layout	Remaining lease term plus renewal option period or period ending September 30, 2013

Intangible assets

Intangible assets are recorded at cost and amortized on a straight-line basis over a three-year useful life.

Notes to Financial Statements

As at March 31, 2007

Start-up costs

Start-up costs were incurred by the *Bureau de transition de l'encadrement du secteur financier*, which was mandated to set up the AMF. These costs represent primarily remuneration, professional fees and rent for *Bureau de transition* operations, and are amortized on a straight-line basis over a five-year period ending February 1, 2009.

Revenue recognition

Revenues from contributions and premiums

Revenues from contributions and premiums are recorded in keeping with the period covered by these revenues. Amounts invoiced for a period exceeding the fiscal year-end are accounted for as deferred revenue.

Revenues from administrative penalties

Revenues from administrative penalties are recognized when the penalty is payable and when collection is reasonably assured.

Revenues other than contributions, premiums and administrative penalties

Revenues other than contributions, premiums and administrative penalties are recorded when the supply is delivered or the service is rendered.

Provision for deposit insurance fund losses

The provision for losses on claims related to repayment of guaranteed deposits results from the subrogation of depositors' rights and interests. The provision for losses is established through a case-by-case analysis and set up as soon as the losses can reasonably be determined. The annual change in this provision is reported in the statement of income.

Pension plans

Defined contribution plan accounting is applied to government interenterprise defined benefit plans given that the AMF lacks sufficient information to follow defined benefit plan accounting.

Cash and cash equivalents

The AMF's policy consists in presenting, under cash and cash equivalents, bank balances, unappropriated demand deposits and other short-term investments maturing within three months of their acquisition date.

3 Income under each Act

Under section 248 of the *Act respecting the distribution of financial products and services* and section 330.1 of the *Securities Act*, all amounts payable to the AMF under each of these Acts must be applied to the payment of expenses incurred for the purposes of the administration of these Acts. During the year, in order to comply with the requirement to publish such income, the AMF developed a method for breaking down revenues and expenses under each Act. Given that the creation of the AMF led to the consolidation and integration of various functions previously carried out by predecessor bodies for the purpose of providing a one-stop service outlet for consumers and market participants, income under each Act presented in this note involves certain estimates. Nonetheless, they are based on the best information available to the AMF.

The results show that during the past two fiscal years, part of the surplus generated under the *Securities Act* was used to offset some of the expenses incurred under other Acts. Additional work is required in order to establish income under each Act for 2004-2005. The work will be completed in 2007-2008.

It should be noted that over 70% of the revenue generated under the *Securities Act* is heavily influenced by the level of economic activity in the financial markets. In order to address this volatility, the Act provides for the creation of a contingency reserve, as explained in Note 15. The contingency reserve, composed of surpluses generated under the *Securities Act*, may be used to compensate for the effects of an economic slowdown as well as provide self-insurance coverage.

It should also be noted that various initiatives currently under way will modify income under each Act as compared with the current situation. The AMF has submitted legislative and rate amendments to the Government with a view to eliminating a portion of the deficits reported in these financial statements.

Notes to Financial Statements

As at March 31, 2007

2007

	SECURITIES ACT \$	ACT RESPECTING THE DISTRIBUTION OF FINANCIAL PRODUCTS AND SERVICES \$	DEPOSIT INSURANCE ACT \$	OTHER ACTS \$	TOTAL \$
Revenue	51,415,797 ¹	12,367,612	30,772,527	12,533,356	107,089,292
Expenses	31,424,469	22,091,566	1,160,665	15,773,580	70,450,280
Surplus (deficit)	19,991,328	(9,723,954)	29,611,862	(3,240,224)	36,639,012

2006

	SECURITIES ACT \$	ACT RESPECTING THE DISTRIBUTION OF FINANCIAL PRODUCTS AND SERVICES \$	DEPOSIT INSURANCE ACT \$	OTHER ACTS \$	TOTAL \$
Revenue	38,352,963 ¹	13,771,757	32,867,924	11,060,105	96,052,749
Expenses	26,975,738	20,465,839	1,234,177	14,418,384	63,094,138
Surplus (deficit)	11,377,225	(6,694,082)	31,633,747	(3,358,279)	32,958,611

1. Section 271.12 of the *Securities Regulation* provided for a 15% reduction in fees payable that ended on February 28, 2006. (The reduction granted over the year ended March 31, 2006 totalled \$5,716,948.)

4 Administrative Expenses Attributed to the Funds

The AMF made human resources, fixed assets and office space available to the deposit insurance fund and the *Fonds d'indemnisation des services financiers*. During the year, the AMF charged them \$473,671 (\$516,890 in 2006) and \$412,764 (\$372,177 in 2006) respectively for the use of these resources. These transactions were conducted in the normal course of activities and measured at the exchange amount, in accordance with an agreement entered into between the parties. As at March 31, 2007, the deposit insurance fund had receivables of \$104,289 (in 2006 it owed \$36,930) and the *Fonds d'indemnisation des services financiers* owed \$202,764 (\$260,349 in 2006) for these services.

5 Deposit Insurance Fund

Pursuant to section 52.2 of the *Deposit Insurance Act*, the deposit insurance fund's accumulated net income is detailed as follows:

	2007	2006
	\$	\$
Balance, beginning of year	344,336,279	312,702,532
Surplus for the year	29,611,862	31,633,747
Balance, end of year	373,948,141	344,336,279

6 Designated Fund

As stipulated in section 276.4 of the *Securities Act* (R.S.Q. c. V-1.1), the AMF may, with the Government's authorization, create a designated fund. The Government authorized the creation of a separate fund for investor education and the promotion of good governance used as follows during the fiscal year:

	2007	2006
	\$	\$
Balance, beginning of year	13,204,981	14,207,238
Use of designated fund:		
Investment income	648,685	433,823
Income from settlements and fines	39,368	
Contribution payments	(1,675,546)	(1,321,110)
Salaries and employee benefits	(66,062)	(110,738)
Other	(2,799)	(4,232)
	(1,056,354)	(1,002,257)
Balance, end of year	12,148,627	13,204,981

Notes to Financial Statements

As at March 31, 2007

7 Financial Instruments

The market value of participation deposit units in funds entrusted to the *Caisse de dépôt et placement du Québec* stood at \$400,814,238 as at March 31, 2007 (\$370,195,770 in 2006). The market value of term deposits entrusted to the *Caisse de dépôt et placement du Québec* stood at \$15,963,629 as at March 31, 2007 (\$16,861,372 in 2006). The market value of bankers' acceptances and bearer term notes was \$13,671,909 and \$24,428,052 respectively as at March 31, 2007 (\$15,315,553 and \$13,187,479 in 2006 for bankers' acceptances and commercial paper).

The fair value of sums entrusted to the *Caisse de dépôt et placement du Québec* is determined by that institution. As regards sums entrusted to other institutions, the fair value of bankers' acceptances and bearer term notes is valued based on the bid price. The fair value of other financial instruments is equivalent to their carrying amounts due to their short maturities.

8 Investments

			As at March 31, 2007	As at March 31, 2006
	CURRENT OPERATIONS \$	DEPOSIT INSURANCE FUND \$	TOTAL \$	\$
Funds entrusted to the <i>Caisse de dépôt et placement du Québec</i>				
Demand deposits	552	96,743	97,295	731,220
Term deposits	15,966,300		15,966,300	16,905,000
Participation deposits	12,663,668	373,902,888	386,566,556	357,834,888
	28,630,520	373,999,631	402,630,151	375,471,108
Funds entrusted to other institutions				
Bankers' acceptances	13,625,000		13,625,000	15,166,455
Bearer term notes	23,576,637		23,576,637	12,999,999
Other				8,800
	65,832,157	373,999,631	439,831,788	403,646,362

Demand deposits, term deposits, bankers' acceptances and bearer term notes earn interest at rates ranging from 4.21% to 4.71% and mature on various dates through February 2008.

9 Accounts Receivable

	As at March 31, 2007		As at March 31, 2006
	CURRENT OPERATIONS \$	DEPOSIT INSURANCE FUND \$	TOTAL \$
Current portion			
Fees, contributions and premiums	15,438,562		15,438,562
<i>Fonds d'indemnisation des services financiers</i>	293,437		293,437
Other			21,148
Due from the Government of Québec			
<i>Conseil du Trésor</i>	227,608		227,608
<i>Ministère du Revenu</i>	7,261		7,261
Enterprise Registrar			21,076
	15,966,868		15,966,868
Long-term portion			
Other	278,700		278,700
Due from the Government of Québec			
<i>Conseil du Trésor</i>	650,650		650,650
	929,350		929,350
	16,896,218		16,896,218
			14,827,563
			139,000
			878,258
			1,017,258
			15,844,821

10 Fixed Assets

	As at March 31, 2007		As at March 31, 2006
	COST \$	ACCUMULATED AMORTIZATION \$	NET BOOK VALUE \$
Leasehold improvements – equipment	418,824	258,842	159,982
Leasehold improvements – layout	7,883,495	2,488,187	5,395,308
Office furniture and equipment	6,434,201	4,590,047	1,844,154
Computer equipment	3,860,852	3,350,224	510,628
	18,597,372	10,687,300	7,910,072
			156,327
			5,001,714
			2,003,973
			615,252
			7,777,266

Notes to Financial Statements

As at March 31, 2007

11 Intangible Assets

			As at March 31, 2007	As at March 31, 2006
	COST \$	ACCUMULATED AMORTIZATION \$	NET BOOK VALUE \$	NET BOOK VALUE \$
Software	2,084,669	1,924,077	160,592	248,311
Information system development	4,033,285	2,945,601	1,087,684	1,424,815
	6,117,954	4,869,678	1,248,276	1,673,126

12 Start-up Costs

			As at March 31, 2007	As at March 31, 2006
	COST \$	ACCUMULATED AMORTIZATION \$	NET BOOK VALUE \$	NET BOOK VALUE \$
Start-up costs	5,799,742	3,673,170	2,126,572	3,286,520

13 Accounts Payable and Accrued Liabilities

			As at March 31, 2007	As at March 31, 2006
	CURRENT OPERATIONS \$	DEPOSIT INSURANCE FUND \$	TOTAL \$	\$
Accounts payable and accrued liabilities	9,737,886	482	9,738,368	9,784,615
Due to the Government of Québec				
<i>Ministère des Finances</i>	854,492		854,492	852,030
<i>Ministère du Revenu</i>	1,383		1,383	
	10,593,761	482	10,594,243	10,636,645

14 Employee Future Benefits

Pension plans

AMF employees participate in the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) or the Pension Plan of Management Personnel (PPMP). These defined benefit interenterprise plans include guarantees on retirement and death.

The AMF's contributions charged to income for the year amounted to \$1,989,401 (\$1,668,057 in 2006). The AMF's obligations under these government plans is limited to its employer contributions.

Allowance for vacation time, sick leave and severance benefits

	As at March 31, 2007	As at March 31, 2006
	\$	\$
Allowance for vacation time		
Balance, beginning of year	3,924,225	3,476,976
Expense for the year	2,986,984	2,826,574
Benefits paid during the year	(2,599,887)	(2,379,325)
Balance, end of year	4,311,322	3,924,225
Allowance for sick leave		
Balance, beginning of year	5,538,322	5,105,394
Expense for the year	1,267,651	1,291,084
Benefits paid during the year	(885,794)	(858,156)
Balance, end of year	5,920,179	5,538,322
Allowance for severance benefits		
Balance, beginning of year	1,595,828	
Expense for the year	295,353	1,595,828
Benefits paid during the year	(682,231)	
Balance, end of year	1,208,950	1,595,828
Allowance for vacation time, sick leave and severance benefits	11,440,451	11,058,375
Long-term portion	(6,923,571)	(6,876,896)
	4,516,880	4,181,479

15 Contingency Reserve

As stipulated in section 276.4 of the *Securities Act* (R.S.Q. c. V-1.1), the AMF may, in the pursuit of its mission under the Act, set up a contingency reserve. Such a reserve has been set up to cover unforeseen changes in revenue or expenses generated under the Act.

Notes to Financial Statements

As at March 31, 2007

16 Guaranteed Deposits

The premiums collected from registered institutions are based on the guaranteed amounts they have on deposit April 30 every year.

The deposits guaranteed on April 30, 2006 by the deposit insurance fund totalled \$68.5 billion (\$66.4 billion in 2005), \$11.6 billion (\$11.3 billion in 2005) of which was held by trust companies or savings companies incorporated under federal legislation and for which no premium is payable.

Under an agreement with the Canada Deposit Insurance Corporation (the “CDIC”), the CDIC will indemnify the AMF and hold it harmless from any liability resulting from any guarantee whatsoever by the AMF for deposits received by a trust company or savings company incorporated under federal legislation.

17 Commitments

The AMF has entered into leases expiring on various dates through 2019 for the rental of its offices calling for payments totalling \$50,094,317. The minimum lease payments for the next five years are as follows: \$4,825,658 in 2007-2008, \$4,896,051 in 2008-2009, \$4,949,996 in 2009-2010, \$4,967,403 in 2010-2011, \$4,762,021 in 2011-2012 and \$25,693,188 for the years 2012-2013 and thereafter.

Commitments related to contributions from the Fund for Investor Education and the Promotion of Good Governance amounted to \$1,119,447 for fiscal 2007-2008 and \$289,872 for fiscal 2008-2009.

18 Contingencies

The AMF is currently faced with various lawsuits for damages. Since it is not possible to evaluate the amount the AMF might be required to pay, no provision has been established in the financial statements. However, the AMF believes that the outcomes of these claims will not have a significant negative impact on its financial position.

The AMF has assumed commitments under operating agreements for national filing systems through CDS Inc. (CDS), which operates the SEDAR and SEDI national filing systems on behalf of the Canadian Securities Administrators (CSA) under agreements with the Alberta Securities Commission, the British Columbia Securities Commission, the Ontario Securities Commission (OSC) and the *Autorité des marchés financiers* (the “CSA Principal Administrators”). CDS also operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Dealers Association of Canada (IDA). Under the agreements:

- If the SEDAR system budgeted operating costs exceed revenues (a “shortfall”), the CSA Principal Administrators must make a payment to CDS. The AMF’s portion of any SEDAR shortfall is limited to 27.8%.

- If the SEDAR revenues exceed system budgeted operating costs (a “surplus”), CDS must pay to the CSA Principal Administrators an amount equal to the surplus. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators agree to share actual versus budgeted system operating cost (“expense”) variances equally. As a CSA Principal Administrator, the AMF has undertaken to sign the agreement, but must obtain the Government’s authorization for confirmation.

The OSC is holding \$16.2 million in trust. The funds are the national filing systems’ accumulated surpluses and expenses variances as at October 31, 2006 and interest earned on those amounts as at March 31, 2007. The CSA Principal Administrators have agreed to use these funds solely for the benefit of national filing system users, such as system enhancements, or for offsetting any shortfall in revenues required in order to pay expenses approved in the annual operating plans. The agreements expire on various dates through May 2010.

19 Supplementary Cash Flow Disclosure

During the year, additions to fixed assets amounted to \$2,016,644 (\$424,658 in 2006), of which \$259,044 (\$97,970 in 2006) was included in accounts payable as at March 31, 2007. Additions to fixed assets resulted in cash outflows totalling \$1,855,570 (\$712,711 in 2006). In addition, during the year, additions to intangible assets amounted to \$531,667 (\$285,434 in 2006), of which \$189,904 (nil in 2006) was included in accounts payable as at March 31, 2007. Additions to intangible assets resulted in cash outflows totalling \$341,763 (\$432,035 in 2006).

20 Related Party Transactions

In addition to the related party transactions disclosed in its financial statements and measured at the exchange amount, the AMF is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Government of Québec or subject to either joint control or significant influence by it. The AMF did not conclude any business transactions with these related parties other than those in the normal course of its operations and under normal trade terms. These transactions are not reported separately in the financial statements.

Notes to Financial Statements

As at March 31, 2007

21 *Fonds d'indemnisation des services financiers* – Financial Statements

STATEMENT OF INCOME for the year ended March 31, 2007

	2007	2006
	\$	\$
REVENUE		
Contributions	4,398,757	2,412,164
Interest	239,199	153,944
Subrogation revenue	1,331,648	160,521
	5,969,604	2,726,629
EXPENSES		
Compensation (Note I)	20,566,586	16,123,246
Salaries and employee benefits	706,034	677,172
Travel expenses	7,291	4,068
Professional services	299,241	175,767
Administrative expenses (Note C)	412,764	372,177
Other	20,394	6,956
	22,012,310	17,359,386
Deficiency of revenue over expenses	(16,042,706)	(14,632,757)

CHANGE IN FUND BALANCES for the year ended March 31, 2007

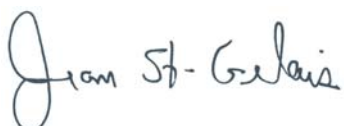
	2007	2006
	\$	\$
Balance, beginning of year	(18,450,194)	(3,817,437)
Deficiency of revenue over expenses	(16,042,706)	(14,632,757)
Balance, end of year (Note D)	(34,492,900)	(18,450,194)

The accompanying notes are an integral part of the financial statements.

BALANCE SHEET
As at March 31, 2007

	As at March 31, 2007	As at March 31, 2006
	\$	\$
ASSETS		
Current assets		
Cash	2,005	1,171
Investments (Note F)	8,214,000	4,947,000
Accounts receivable (Note G)	1,599,510	351,606
Prepaid expenses	8,412	8,502
	9,823,927	5,308,279
Non-interest bearing notes receivable in subrogation, maturing in 2013	23,352	41,293
	9,847,279	5,349,572
LIABILITIES		
Current liabilities		
Accounts payable (Note H)	352,446	287,341
Compensation allowance (Note I)	40,771,000	21,116,000
Deferred revenue	3,216,733	2,396,425
	44,340,179	23,799,766
FUND BALANCE (Note D)	(34,492,900)	(18,450,194)
	9,847,279	5,349,572
CONTINGENCIES (Note J)		

The accompanying notes are an integral part of the financial statements.



Jean St-Gelais
President and Chief Executive Officer
Autorité des marchés financiers



Linda Levasseur
Executive Director, Administration
Autorité des marchés financiers

Notes to Financial Statements

As at March 31, 2007

21 *Fonds d'indemnisation des services financiers* – Financial Statements (cont.)

A ■ GOVERNING STATUTES AND NATURE OF OPERATIONS

The *Fonds d'indemnisation des services financiers* is a fund incorporated under the *Act respecting the distribution of financial products and services* that was sanctioned on June 20, 1998 by the National Assembly. This fund replaced corresponding funds created under the *Act respecting market intermediaries* as of October 1, 1999.

On February 1, 2004, the *Fonds d'indemnisation des services financiers* was replaced by the *Autorité des marchés financiers* (the “AMF”) under the *Act respecting the Autorité des marchés financiers*. As a result, the AMF acquired the fund's rights and assumed its obligations. The *Fonds d'indemnisation des services financiers* is now a patrimony by appropriation managed by the AMF separately from its other assets.

By an order-in-council issued on September 21, 2005 by the Government of Québec, the AMF was authorized to incorporate the amounts from the *Fonds d'indemnisation en assurance de personnes*, the *Fonds d'indemnisation en assurance de dommages* and the *Fonds d'indemnisation des planificateurs financiers* into the *Fonds d'indemnisation des services financiers*. Up until that date, the AMF had managed separately these three patrimonies created by the former *Act respecting market intermediaries*. The compensation arising from instances of fraud committed prior to October 1999 was paid out of these patrimonies based on their respective jurisdiction. Any and all compensation is now paid out of the *Fonds d'indemnisation des services financiers* irrespective of the year in which the fraud was committed.

The AMF, via the *Fonds d'indemnisation des services financiers*, is responsible for administering the amounts deposited into the fund. Its mission is also to compensate individuals who have been the victims of fraud, fraudulent tactics or embezzlement for which a firm, an independent representative or an independent partnership may be held liable in connection with its activities. It also has responsibility for taking over claims on file with the former funds and to rule on whether claims resulting from offences committed between September 1, 1991 and September 30, 1999 are eligible for payment in accordance with the rules determined by the *Act respecting market intermediaries*.

B ■ ACCOUNTING POLICIES

The preparation of the financial statements of the *Fonds d'indemnisation des services financiers* in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

No statement of cash flows has been presented since the main operating, investment and financing activities are apparent from reading the other financial statements and it would have provided no additional information.

Investments

Investments are recorded at cost less any permanent decline in value.

Revenue recognition

Revenue from contributions

Revenue from contributions is recorded in keeping with the period covered by the revenue. Amounts invoiced for a period exceeding the fiscal year-end are accounted for as deferred revenue.

Subrogation revenue

Subrogation revenue is reported when it is reasonably certain that these amounts will be recovered.

C ■ ADMINISTRATIVE EXPENSES

The AMF has made human resources, fixed assets and office space available to the *Fonds d'indemnisation des services financiers*. During the year, the AMF charged \$412,764 (\$372,177 in 2006) for the use of these resources. These transactions were conducted in the normal course of activities and measured at the exchange amount, in accordance with an agreement entered into between the parties. As at March 31, 2007, the *Fonds d'indemnisation des services financiers* owed \$202,764 (\$260,349 in 2006) for these services.

D ■ FUND BALANCE

Pursuant to an amendment adopted in December 2004 to section 278 of the *Act respecting the distribution of financial products and services*, it was established that should assets be insufficient, the contribution would have to be determined so as to offset this shortfall over a maximum five-year period.

E ■ FINANCIAL INSTRUMENTS

Cash, term deposits, accounts receivable and accounts payable are financial instruments whose fair value approximates the carrying amount given the short period to maturity and the related terms and conditions.

The fair value of the notes receivable in subrogation could not be determined because it is practically impossible to find market financial instruments with essentially similar financial characteristics.

Notes to Financial Statements

As at March 31, 2007

21 *Fonds d'indemnisation des services financiers* – Financial Statements (cont.)

F ■ INVESTMENTS

	As at March 31, 2007	As at March 31, 2006
	\$	\$
Term deposits, bearing interest at 3.85%, maturing in March 2008	8,214,000	4,947,000

G ■ ACCOUNTS RECEIVABLE

	As at March 31, 2007	As at March 31, 2006
	\$	\$
Contributions receivable	280,621	326,344
Other	1,317,541	25,262
Accrued interest	1,348	
	1,599,510	351,606

H ■ ACCOUNTS PAYABLE

	As at March 31, 2007	As at March 31, 2006
	\$	\$
Accounts payable and accrued liabilities	59,009	77,446
<i>Autorité des marchés financiers</i> (current operations)	293,437	209,895
	352,446	287,341

I ■ COMPENSATION AND PROVISION FOR COMPENSATION

Establishing the amount of the provision for compensation in respect of reported and unreported claims, determined by the actuaries mandated by the AMF, takes into account known facts and an interpretation of the circumstances based on experience with similar situations, historical claim settlement trends, settled claims, the number of unsettled claims and event frequency.

The following table summarizes the change in the provision for compensation:

	As at March 31, 2007	As at March 31, 2006
	\$	\$
Balance, beginning of year	21,116,000	9,509,211
Expense for the year	20,566,586	16,123,246
Claims settled during the year	(911,586)	(4,516,457)
Balance, end of year	40,771,000	21,116,000

J ■ CONTINGENCIES

The *Fonds d'indemnisation des services financiers*, which has been replaced by the AMF, is involved in various lawsuits concerning decisions to reject compensation in the course of its activities. Since it is not possible to evaluate the amount the AMF might be required to pay, no provision has been established in the financial statements. However, the AMF believes that these lawsuits are unfounded and that the outcomes of these claims will not have a significant negative impact on the financial position of the *Fonds d'indemnisation des services financiers*.

*CONSEIL
CONSULTATIF
DE RÉGIE
ADMINISTRATIVE*
(Advisory Board)

2006-2007 Annual Report



Québec City
July 27, 2007

Ms. Monique Jérôme-Forget
Minister of Finance
Parliament Building
Québec City

Dear Madam:

I am pleased to provide you with the 2006-2007 Annual Report of the *Conseil 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 continuing commitment to ensuring that the Board, in co-operation with the AMF, serves as a primary governance body.

Yours truly,

A handwritten signature in dark ink, appearing to be 'BMotulsky', with a long, sweeping horizontal line extending to the right.

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

Section 48 of the *Act respecting the Autorité des marchés financiers* (R.S.Q. c. A-33.2) (the “Act”) establishes the *Conseil consultatif de régie administrative* (Advisory Board) within the *Autorité des marchés financiers* (AMF).

The Board advises and makes recommendation to the AMF and to its President and CEO, in accordance with its functions as set out in section 57 of the Act. It also assists the Minister of Finance by reporting to the Minister on any matter submitted to it by him and by making recommendations concerning the administration of the AMF and the efficient use of its resources.

No later than July 31 of each year, the Board is required to submit to the Minister a report of its activities for the preceding fiscal year.

Composition of the Board

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. They must also, at all times, be free of any conflict of interest and be totally independent of the AMF and the entities it regulates. In order to fully assume its role, during the 2006-2007 fiscal year, the Board was able to draw on a complete roster composed of the following members:

- Bernard Motulsky, the Chair of the Board, is a communications specialist, a Professor at the University of Québec at Montréal (UQAM) and co-holder of the Chair in Public Relations.
- Michel Lespérance, the Secretary of the Board, was the Secretary General of the University of Montréal until his retirement in September 2005.
- Marie Lacroix, who was appointed on November 30, 2006, is a management consultant.
- Michel Lamontagne specializes in private financing and coaching related to angel investor groups and is a corporate director.
- Andrée Mayrand, who was appointed on February 8, 2007, is the Director, Pension Fund Investment Management at the University of Montréal.
- Jean Phaneuf is President of *Analys psychologie 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.



From left to right. First row: Marie Lacroix, Bernard Motulsky, Michel Lespérance. Second row: Jean Phaneuf, Andrée Mayrand, Michel Lamontagne, Jacques St-Pierre.

The Board held eight official meetings during the fiscal year covered by this report, in addition to four working sessions. The resulting discussions led to the following accomplishments, among others.

Advice and Recommendations

Advice Relating to the Activity Plan

Early in the fiscal year, namely, on May 5, 2006, the Board, acting in accordance with subparagraph (2) of section 57 of the Act, issued a favourable recommendation regarding the AMF's 2006-2007 activity plan, after having ensured that the plan included an organizational development plan that clearly highlighted the major issues affecting the financial sector.

Advice Relating to Budget Estimates

Prior to the advice given by the Board on February 19, 2007, in accordance with subparagraph (2) of section 57 of the Act, regarding the budget estimates of the AMF, the Board recommended that adjustments be made in order to ensure fiscal balance. The 2007-2008 budget estimates accepted by the Board reflect this balance. They are the results of close co-operation and continued discussions between the Board and senior management of the AMF.

Advice Relating to Governance and Harmonization of AMF Governance with Policy Statement

Within the scope of the government's initiative to modernize the governance of state-owned enterprises, the Board, at the request of the Deputy Minister of Finance, prepared a report setting out its advice for improving governance at the AMF and indicating the tools that would enable it to fulfill its mission more effectively.

In preparing this report, the Board considered the principles for modernizing the governance of state-owned enterprises as they apply specifically to the AMF and to the Board, which is not, strictly speaking, a board of directors. The Board then carried out a self-assessment of its governance practices and established a plan of action that it is currently implementing.

Tools such as an annual agenda for the Board as well as practices to improve its efficiency, including presentations that are both more comprehensive and integrated, have been or are in the process of being implemented.

The preliminary results of this process point to greater efficiency by the Board and more in-depth coverage of the matters brought to its attention.

Advice Relating to Human Resources

The Board believes that the AMF's staff is its most valuable asset. The AMF faces major challenges and must be able to rely on dedicated and competent employees. Consequently, in fiscal 2006-2007, the Board carefully considered several significant issues involving human resources, such as the process for selecting superintendents, the monitoring of their development plans and the establishment of a related compensation review, as well as the hiring of a human potential development director. Based on the Board's recommendations, the AMF implemented or adjusted several promising initiatives. This continues to be one of the Board's priorities.

The Board also considered the issues related to pay equity, employee classification and the renewal of collective agreements, executive compensation, a succession plan in the event of a pandemic or crisis, as well as a survey to determine employee perceptions of the AMF.

Furthermore, in accordance with subparagraph (3) of section 57 of the Act, the Board issued a recommendation regarding the hiring of Danielle Boulet as Superintendent, Solvency. The Board monitored the integration of this new member of senior management in September of 2006, as well as the integration of Louis Morisset as Superintendent, Securities Markets, in May of 2006.

Finally, the Board was able to monitor the contract renewal process for members of senior management hired by the *Bureau de transition* in connection with the establishment of the AMF and make recommendations to improve efficiency. This process is expected to be completed at the beginning of fiscal 2007-2008.

Specific Monitoring and Other Activities

Monitoring of Management Information and Accountability

In order to monitor the AMF's activities as effectively as possible, the Board set out its expectations regarding the management information and accountability reports submitted to it periodically. The indicators, which are in the process of being implemented, as well as the improved presentation of results are already facilitating the Board's detailed and critical assessment of developments at the AMF.

The Board also established parameters for the documentation required to be conveyed to it for information purposes or as part of the more formal meeting process. The Board is pleased with, and appreciates, the improved readability and relevance of the information provided to its members.

The Board participated in various discussions with the Auditor General of Québec and supported AMF management in making changes intended to deliver activity-based accounting information, while, however, examining the relevance of doing so beforehand.

Fund for Investor Education and the Promotion of Good Governance

During fiscal 2006-2007, the Board contributed to efforts to improve the governance of the Fund for Investor Education and the Promotion of Good Governance to enable it to fully support the AMF in performing its mission related to the promotion of good governance and the protection and education of investors.

In this regard, the Board approved the Fund's guidelines, after certain amendments were made, at the Board's request, in order to strengthen the governance of the Fund and specify the Board's role with respect thereto. In so doing, the Board seeks to ensure that the projects carried out are in line with the priorities set by the AMF and are widely disseminated.

Moreover, the Board proposed the implementation of certain measures in order to ensure the sustainability of the Fund. Among the immediate initiatives that can be carried out by the AMF on its own, the Board recommended the Fund's assets be capitalized and that the financing available for projects be established so as not to undermine the stability of these assets. The AMF accepted this recommendation.

Monitoring of Regulatory and Legislative Activities

The Board also closely monitored the AMF's various initiatives for the harmonization of securities regulation across Canada through what is referred to as the "passport system."

Furthermore, the Board has placed a priority on supporting the AMF's efforts to strengthen its ability to ensure market surveillance and intervene in a timely manner in the interest of investor protection and where a malversation has been committed.

Monitoring of Major Oversight Matters

Fiscal 2006-2007, like the previous fiscal year, was marked by two major regulatory oversight matters, namely, the Norbourg and Mount Real affairs. In light of the significance of these matters, the Board was kept apprised, through summary reports at each meeting, of their general progress, particularly as regards their impact on the administration of the AMF. The Board will continue to monitor these matters so as to ensure that sufficient personnel is made available and properly deployed so as to successfully complete the task required in both of these major files, without adversely affecting the AMF's other efforts to protect the public or its day-to-day operations.

Strengthening the AMF's Public Presence

During fiscal 2006-2007, the Board supported the AMF's initiatives to increase its public presence, which the Board believes is essential to the accomplishment of the AMF's mission to protect investors. In this regard, the Board views the publication of information pamphlets intended for investors as well as pamphlets indicating the status of the Norbourg file as effective means for contributing to investor education and protection.

The Board also clearly demonstrated the importance it attaches to the AMF's efforts to strengthen its public presence by actively participating in a new annual event known as *Rendez-vous with the AMF*. The meeting, which was held on October 30, 2006, brought together representatives from the financial sector for a day of conferences and discussion. The Board took the opportunity to inform industry participants of its advisory role toward the AMF and the Minister.

Finally, the Board was pleased with the activities carried out in connection with the initiative mandate relating to investor protection in Québec, headed by the Committee on Public Finance, particularly the presentation given by the AMF President and CEO at the hearings.

Representing the AMF at National and International Events

The Board continued to reflect on the AMF's participation in various national and international forums in order to properly assess the impact of such participation on the management, budget and operations of the AMF. The Board views such participation as an effective channel for increasing regulatory harmonization as well as enhancing the AMF's ability to supervise the markets and intervene promptly when necessary.

The vast majority of securities laws and regulations across Canada are developed through co-operation among the country's various regulators. Furthermore, given the close interrelationship among the world's financial markets, the weakness of certain financial regulatory systems can give rise to risks for Québec's financial markets. The AMF can influence discussions on current issues and take measures to ensure that the instruments developed in Québec comply with international standards.

Finally, the Board acknowledges the impact of international representation requirements on the efficiency of Québec's financial markets and intends to continue to assist the AMF in further fine-tuning the international plan of action during the coming year.

Conclusion

The members of the Board are pleased with the progress achieved during fiscal 2006-2007.

They can vouch for the efforts made in order to intensify market oversight and suppress financial market crime.

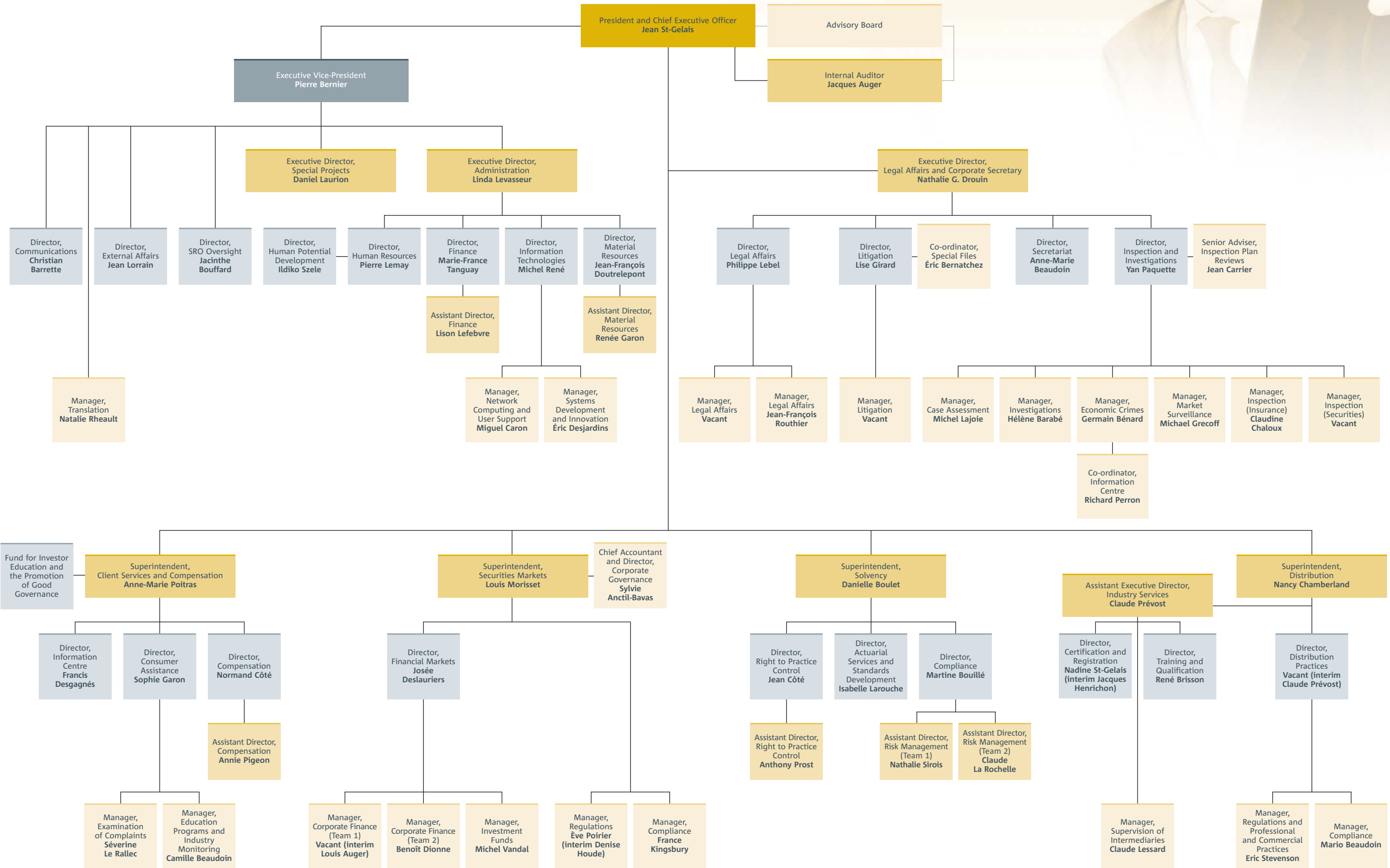
The Board is equally pleased with the legislative and regulatory initiatives taken with a view to further strengthening the competitiveness of our financial markets and forging them into marketplaces that merit the necessary confidence of investors.

The Board firmly believes that the AMF is clearly on the road to improving the quality of its governance.

The Board members wish to highlight the valued contribution made by M^e Anne-Marie Beaudoin, AMF Director, Secretariat, as well as the genuine and unwavering co-operation they have enlisted from all AMF senior management, particularly from Jean St-Gelais, AMF President and CEO.

The Board also wishes to welcome Marie Lacroix and Andrée Mayrand, its newly appointed members. Their presence and expertise will ensure that the Board has the stability and resources for it to perform its advisory role in matters of administrative management more fully.

ORGANIZATIONAL CHART AS AT MARCH 31, 2007



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