

Notes for an Address by

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at the Annual Conference of the
Investment Funds Institute of Canada

Toronto

September 28, 2006

Greetings and Thank You

Good morning.

At the outset, I wish to thank Joanne De Laurentiis, President and Chief Executive Officer of the Investment Funds Institute of Canada (IFIC), and her team for inviting me to this annual conference.

I would also like to commend IFIC for its notable contribution toward improving the regulation of financial markets. Its efforts to foster dialogue between the Canadian mutual fund industry and the Canadian Securities Administrators (CSA), which are very much appreciated, assist considerably in enhancing and disseminating regulations.

I am therefore very pleased to be able to take part this year in your exchanges and discussions on matters related to the mutual fund industry.

Registration Reform

As you know, the CSA has been working on registration reform for more than two years now.

The *Autorité des marchés financiers* (AMF) has been an active participant in this ambitious CSA project. As the CSA Chair and President and CEO of the AMF, I would therefore like to discuss today current developments in this important matter and share some specific concerns.

This project is designed to harmonize, streamline and modernize the registration regime across Canada.

We want to reform the system to reduce costs to both the industry and regulators, focus on retail investors, and provide greater flexibility for new business products and services.

The Registration Reform Project affects all jurisdictions represented within the CSA and will affect all registrants in our capital markets.

This is a comprehensive and complex initiative aimed at improving efficiencies in the system. It is not about regulating registrants in an intrusive or burdensome manner.

About two dozen representatives from various regulators, self-regulatory organizations and member firms involved are assigned to the Registration Reform Project; about half of them on a full-time basis.

The Working Group has held several meetings, most recently in Montréal on September 14 and 15, to discuss the details of a draft national registration rule.

IFIC has provided excellent collaboration, in particular through its Board Committee, which was set up specifically for the Registration Reform Project. It has delivered robust and thoughtful input to the CSA on all aspects of the project. I wish to thank the Chair of the Committee, Murray Taylor, whose leadership and expertise are proving to be invaluable to our work.

I would be remiss in not mentioning the solid contribution made by the *Conseil des fonds d'investissement du Québec*, whose views on the matter expressed through regular consultation sessions with the AMF have been quite constructive and relevant.

The Registration Reform Project has three essential elements:

1. Harmonizing national registration requirements through a national rule
2. Improving registration efficiency (NRD)
3. Implementing the client relationship model.

FIRST ELEMENT: HARMONIZATION, MODERNIZATION AND STREAMLINING

The first element deals with the harmonization, modernization and streamlining of the registration regime. It aims to determine areas where a more principle-based approach could lead to greater flexibility.

The objective of the Registration Reform Project is the creation of a flexible and harmonized registration regime. Streamlining the registration requirements is an important aspect of this. The CSA Registration Working Group intends to publish for comment a draft national registration rule (National Instrument 31-103, *Registration Requirements*) by the end of 2006.

We anticipate that the new regime will result in increased administrative efficiencies and reduced regulatory burden on registrants across Canada. The draft rule is currently being developed by the Working Group on the basis of the initial January 2006 proposal for a harmonized, streamlined and modernized registration system (the "Proposal").

- As at July 31, 2006, Part II of the Proposal was completed.
- The Working Group is holding regular meetings. Meetings were held in Toronto in April 2006, in Regina in June and, as mentioned earlier, in Montréal two weeks ago. The Working Group will meet again in Toronto in October in order to finalize the draft rule.
- Industry consultations are conducted by the Working Group on a regular basis to ensure the rule takes into account industry comments and suggestions. The consultation process will continue until at least mid-October.

The main elements of the registration reform Proposal include:

1- A new business trigger for registration

The registration requirement for dealers will be triggered by being in the business of dealing in securities, a significant change from the trade trigger currently in force in all CSA jurisdictions except Québec. The term “in the business” will be defined either in the Rule or in securities legislation.

2- The creation of a new category of registrant – Fund Managers

Fund managers, though not currently registered, have obligations imposed on them indirectly through the mutual fund rules. By creating a registration category, we can directly regulate the fund managers, which is a more transparent and efficient way to regulate and address the risks associated with the fund manager activity.

The purpose of requiring registration of fund managers is to minimize any risk associated with valuation or the transfer agent function of fund managers.

The registration requirements for this category will be designed to ensure;

- Integrity;
- Proficiency;
- solvency; and
- adequate management of conflicts of interest.

The requirements applicable to fund managers, as a specific category of registrants, will be:

- completion of a registration form and security checks;
- proficiency requirements for individuals in specified supervisory roles;
- distinct capital and insurance requirements.

The consultation process with respect to fund manager registration is continuing, and the Working Group intends to finalize Part III of the Proposal in the coming weeks.

3- Exemptions from registration

Registration exemptions will be limited primarily to situations where securities regulatory concerns are addressed in some other way, such as through the application of another regulatory regime.

Foreign dealers and advisers who are in the business of dealing or advising in securities in Canada will be exempt from registration, provided they meet specific terms and conditions set forth in the Rule.

The implementation of the new business trigger will eliminate the need for many exemptions, whether statutory or discretionary, that now apply. This is because several statutory applications that now apply will no longer be relevant under the business trigger regime.

All registration exemptions under National Instrument 45-106 *Prospectus and Registration Exemptions* have been carefully examined in light of the business trigger, and consequential amendments will have to be made to the instrument.

4- Supervisory structures and client dealings

The Working Group is preparing a supervisory compliance model intended for both large and small firms. The intention is to establish principles for compliance based upon those set out in the recently released IOSCO paper.

The requirements relating to dealings with clients such as know-your-client and assessing the suitability of investments will be clarified, harmonized and streamlined.

The conduct rules will also cover record-keeping, trade confirmations and complaint examinations, also on a harmonized and streamlined basis. The Québec regime for complaint examinations will form the basis of guidelines issued to registrants on this aspect of supervision and client dealings.

5.- Proficiency

The Proposal of the Working Group focuses on harmonizing, streamlining and modernizing the proficiency requirements by adopting an exam-based requirement.

The Working Group is discussing whether the determination of entry level proficiency should be delegated to the SROs.

6- Conflicts

The Working Group is compiling one set of conflict provisions, rationalizing unclear or conflicting requirements and harmonizing the requirements across all jurisdictions.

A combination of principles and prescriptive requirements, with clear guidelines for registrants, is currently under consideration. Examples of situations giving rise to conflicts are being prepared by the Working Group. These examples would be included in the guidelines and would illustrate “best practices” for registrants.

More complex businesses may need to have more developed processes, while less complex businesses may be able to draw on simpler conflict-management policies. Requirements can thus be tailored to the business.

7- Categories

The number of categories for firms has been reduced to six:

- investment dealer
- mutual fund dealer
- specialty dealer
- fund manager
- portfolio manager
- specialty adviser

The Working Group is currently discussing possibilities with respect to the specialty dealer category (to be called “restricted dealer”). The Working Group aims to:

1. avoid registration of a firm in multiple categories;
2. ensure that proficiency is adequate to the product sold by the representative; and
3. protect investors by requiring SRO membership.

8- Capital and insurance

Minimum capital and insurance requirements for each type of registrant have been recommended by the Working Group.

9- Permanent registration regime

A permanent registration regime, based on the Québec system, will be provided in the Rule. Under the proposed regime, registration would remain effective until it is terminated by a triggering event.

A registration could be revoked or suspended (or conditions could be imposed) in the event a registrant no longer meets the fit and proper requirements, or is objectionable.

10- Terminations, transfers and suspensions

New mechanisms will be provided with respect to the termination and suspension of individuals, including a new NRD notice of termination.

SECOND ELEMENT: IMPROVING REGISTRATION EFFICIENCY (NRD)

The second main element of registration reform is improving registration efficiency.

We want to improve the National Registration Database (NRD) rules. As you know, the NRD is a Web-based system that streamlines the application process. It enables dealers and advisers to file registration forms electronically. NRD was designed to harmonize the filing of registration applications and prescribed notices and documents across Canada.

As I mentioned, we are working on streamlining registration requirements in many areas. One area is registration categories. Both CSA and SRO categories are being streamlined and harmonized across the country so as to minimize the number of firm and individual categories. This will make NRD easier to use and will simplify multijurisdictional registration.

Individual categories will be based on the individual's relationship to the firm and the function performed by the individual. New registration forms have been prepared and consequential changes to NRD will be carried out.

THIRD ELEMENT: CLIENT RELATIONSHIP

Client relationship is the third element of this initiative.

This element focuses squarely on the retail investor and his relationship with his adviser. It is designed to regulate the investment dealer industry based on the relationships formed with clients by people and firms, rather than the products sold to clients. Its core principles were eventually integrated into the Registration Reform Project.

A joint SRO working group, with CSA membership, is drafting SRO by-laws covering three main areas:

1. Account opening
2. Costs and conflicts
3. Performance reporting

This third element of registration reform will generate significant transparency benefits for the relationship between clients and registrants.

Conclusion

That was a very quick overview of what we are working on in the Registration Reform Project.

I wanted to give you, in concise terms, an explanation as to why these are priorities of securities regulators.

We are planning to publish the CSA rules for all three core elements of the Project by late winter. When that happens, I encourage you to participate in the comment process to help us meet our regulatory objectives without creating undue burden on market participants.

We are working with SROs and the industry to create a flexible regime that is modern, harmonized and more efficient. By streamlining and improving the overall registration system, we will reduce the regulatory burden on registrants and foster fair and efficient capital markets for this country.

IFIC's contribution will no doubt be crucial.

It plays an important role in establishing and communicating industry positions on major regulatory initiatives. A good example is the establishment of a Board Committee that worked diligently with CSA representatives to successfully set up Independent Review Committees.

The establishment of a Board Committee dedicated to the Registration Reform Project and chaired by Murray Taylor introduces a constructive dialogue and helps build bridges between the industry and the CSA.

I encourage the industry to continue in this effort as it is important to the promotion of laws and regulations that serve the interests of both the industry and investors.

We expect the mutual fund industry to look after consumer interests. If the task is performed effectively, this will contribute to its growth.

It is my sincere hope that, through your invaluable collaboration, the Canadian mutual fund industry will be a model of prosperity and integrity that reflects the full potential of mutual fund professionals.

Rest assured that we will continue to assist you in the pursuit of this objective.

The actions that we all take seek to achieve the harmonious growth of the financial industry and meet the need of protecting investors.

Thank you.